

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUYANA

FISCAL AND FINANCIAL MANAGEMENT PROGRAM

(GY-0053)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE FILES OF RE3/SC3

PREPARATION:

1. Program Report for the Poverty Reduction Support Credit, World Bank, November 2002.
2. GUYANA: Tax Policy and Tax and Customs Administration Reforms, Fiscal Affairs Department, CARTAC, FMI. September 2002.
3. Improving the Public Sector Financial Management. GEMP3-CIDA. September 2003.
4. Country Program Evaluation (CPE), Inter-American Development Bank. May 2002.
5. Guyana: Assycuda ++, Post implementation Review and Technical Feasibility Study. United Nations UNCTAD, October 2002.
6. Updated Debt Management Demand Assessment Mission, June 2002. Debt Relief International, CEMLA.
7. Customs Order Act No. 2 of 2004, January 2002. Government of Guyana GRA.
8. Technical Cooperation for the Institutional Support for the Ministry of Finance, the Auditor General and the Guyana Environmental Agency. Inter-American Development Bank, August 1990.
9. Guyana: Country Financial Accountability Assessment. World Bank, April 2002.
10. Guyana: Country Procurement Assessment Report. The World Bank, 1998.
11. Guyana: Public Expenditure Review. The World Bank, August 2003.
12. Proposed Program for the Implementation of the Value Added Tax, Caribbean Center for Technical Assistance (CARTAC), March 2004.
13. Draft laws; Financial Management and Accountability Act. National Audit Act.

EXECUTION:

1. Guyana: Assessment of Current Systems and Procedures and Proposal for Overall Design. Inter-American Center for Tax Administrations (CIAT). December 2003.
2. Fiscal and Financial Management Program: Draft Program's Operating Manual.
3. Terms of Reference for: (i) the Specialized Agency; (ii) Program Coordinator; (iii) Long term Technical Advisor for subcomponent 1; (iv) long term IT Advisor subcomponent 1; (v) study to analyze the functionality of the IT system for customs operations.
4. Indicative Terms of Reference for consultancies for the first year of the program (Subcomponent 1, GRA).
5. Guyana: Fiscal Enactment Act, August 2003.
6. Guyana: Amendment to the GRA Act, December 2003.
7. Guyana: Fiscal Management and Accountability Act, December 2003.
8. Guyana: Audit Bill No. 5 of 2004, April 2004.
9. Draft project performance and monitoring report.
10. Evidence of compliance and means of verification for the policy matrix conditionalities (tranches one, two and three).

ABBREVIATIONS

AOP	Annual Operating Plans
CARTAG	Caribbean Regional Technical Assistance Center
CFAA	Country Financial Accountability Assessment
CIAT	Inter-American Center of Tax Administration
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Report
CSP	Country Strategy Paper
CT	Consumption Tax
CTA	Customs and Trade Administration
ESC	Economic Services Committee
FSO	Fund for Special Operations
GEMP3	Guyana Economic Management Project
GOG	Government of Guyana
GRA	Guyana Revenue Authority
IFMAS	Integrated Financial Management System
IMF	International Monetary Fund
IRD	Internal Revenue Department
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MSC	Management Sub-Committee
NPV	Net present value
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PCU	Project Coordination Unit
PEU	Project Executing Unit
PFM	Financial Management Practices
PPC	Public Procurement Commission
PPM	Policies and Procedures Manual
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PTI	Poverty Targeted Investment
SC	Steering Committee
TC	Technical Committee
TIN	Taxpayer identification number
VAT	Value added tax



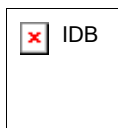
GUYANA

IDB LOANS

APPROVED AS OF APRIL 30, 2004

	US\$Thousand	Percent
TOTAL APPROVED	838,127	
DISBURSED	644,839	76.93 %
UNDISBURSED BALANCE	193,288	23.06 %
CANCELATIONS	41,405	4.94 %
PRINCIPAL COLLECTED	231,511	27.62 %
APPROVED BY FUND		
ORDINARY CAPITAL	115,230	13.74 %
FUND FOR SPECIAL OPERATIONS	715,963	85.42 %
OTHER FUNDS	6,934	0.82 %
OUTSTANDING DEBT BALANCE	413,329	
ORDINARY CAPITAL	18,159	4.39 %
FUND FOR SPECIAL OPERATIONS	395,170	95.60 %
OTHER FUNDS	0	0.00 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	250,505	29.88 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	37,857	4.51 %
ENERGY	106,366	12.69 %
TRANSPORTATION AND COMMUNICATIONS	128,059	15.27 %
EDUCATION	92,568	11.04 %
HEALTH AND SANITATION	80,562	9.61 %
ENVIRONMENT	900	0.10 %
URBAN DEVELOPMENT	48,399	5.77 %
SOCIAL INVESTMENT AND MICROENTERPRISE	50,989	6.08 %
REFORM AND PUBLIC SECTOR MODERNIZATION	40,988	4.89 %
EXPORT FINANCING	934	0.11 %
PREINVESTMENT AND OTHER	0	0.00 %

* Net of cancellations with monetary adjustments and export financing loan collections.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Guyana

Tentative Lending Program

2004

Project Number	Project Name	IDB US\$ Millions	Status
GY0077	Health Sector Program	23.0	
GY0053	Fiscal and Financial Management Program	28.0	
GY0011	Agricultural Support Services	20.0	
GY0076	Moleson Creek-New Amsterdam Road	37.3	
* GY1002	Trans World Telecom Guyana	18.0	
GY0055	Georgetown Solid Waste Management	9.5	
GY0073	Public Management Modernization Program	5.0	
Total - A : 7 Projects		140.8	
GY0066	Information & Communications Technology	21.3	
GY0071	Citizen Security Program	7.0	
Total - B : 2 Projects		28.3	
TOTAL 2004 : 9 Projects		169.1	

2005

Project Number	Project Name	IDB US\$ Millions	Status
GY0075	Timehri Bypass Road	40.0	
GY0074	Rural Roads Program	20.0	
Total - A : 2 Projects		60.0	
TOTAL - 2005 : 2 Projects		60.0	

Total Private Sector 2004 - 2005	18.0
Total Regular Program 2004 - 2005	211.1

* Private Sector Project



GUYANA

STATUS OF LOANS IN EXECUTION AS OF APRIL 30, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1998	2	45,100	23,405	51.90 %
1998 - 1999	5	104,000	37,642	36.19 %
2000 - 2001	3	53,900	13,408	24.88 %
2002 - 2003	4	65,850	1,748	2.65 %
TOTAL	14	\$268,850	\$76,203	28.34 %

* Net of cancellations. Excludes export financing loans.

FISCAL AND FINANCIAL MANAGEMENT PROGRAM

(GY-0053)

EXECUTIVE SUMMARY

Borrower:	Cooperative Republic of Guyana		
Executing agency:	Ministry of Finance		
Amount and source:	IDB: (FSO)		<u>US\$28.0 million</u>
	Policy-Based Component:		US\$15.0 million
	Investment Component:		US\$13.0 million
	Local:		<u>US\$1.5 million</u>
	Total:		US\$29.5 million
Financial terms and conditions:	Amortization Period:		40 years
	Grace Period:		10 years
	Disbursement Period:	Policy-based Component	2 years ¹
		Investment Component	4 years ²
	Interest Rate:	1% for first 10 years, 2% thereafter	
	Supervision and Inspection:		1%
Objectives:	Credit Fee:		0.5%
	Currency:		U.S. Dollar
	The objective of the program is to assist the Government of Guyana in implementing a reform agenda aimed at improving the management of public finances, thereby providing a strong fiscal basis for sustained growth. Consistent with this objective, and in the context of a stable macro-economic framework, the operation is intended to: (a) improve the efficiency and equity aspects of the tax system, (b) contribute to a more efficient use of public resources by strengthening the public sector financial management and the public audit and fiduciary oversight.		
Description:	The program consists of two interrelated components: (a) a policy-based component (PBL); and (b) an investment component, both aimed at supporting implementation of the same reform program. The first component is intended to support the adoption and implementation of a series of policy reforms to the tax, financial management, audit and fiduciary oversight systems, with the aim of ensuring more efficient and transparent fiscal management. The component is supported by a PBL of US\$15 million, to be disbursed in three tranches. Corresponding to these tranches, the planned reforms follow a sequence of actions, involving legislative, and		

¹ The total amount of Bank financing will not be disbursed in a period less than 18 months.

² The total amount of Bank financing will no be disbursed in a period less than three years.

intermediate and final implementation benchmarks. The actions corresponding to the first tranche are well advanced, three out of four conditions have been met.

The activities included in the investment and technical support component will assist the Government in achieving and sustaining the reform benchmarks identified in the policy matrix by financing the required investments and operational improvements at the institutions that will lead the implementation of the reform agenda. The component includes support for the implementation of a comprehensive modernization plan for the Guyana Revenue Authority; supplementary financing for the modernization of the public expenditure management system; and support for activities to strengthen fiscal and fiduciary oversight mechanisms in accordance with the 2001 constitutional amendments.

**Bank's country
and sector
strategy:**

The Country Strategy Paper (CSP) focuses on the promotion of sustainable growth, social development and poverty alleviation. The strategy seeks to address Guyana's major development challenges: (a) maintaining a sound macroeconomic framework for sustained growth and private sector development; (b) improving governance and public sector modernization; (c) improving social sector infrastructure and service delivery; and (d) improving basic economic infrastructure.

The proposed program spans the first two strategic areas. In supporting a strengthening of the revenue base and providing a framework for the efficient rationalization of public spending, it will help to underpin the fiscal basis for sustained economic growth. At the same time, the program is listed as a key public sector modernization program in the CSP. The essential nature of the activities it aims to support is reflected in the fact that benchmarks from the program constitute the majority of the performance indicators listed in the CSP as triggers for the maintenance of the baseline-lending scenario.

The proposed program is also fully compatible with the strategy of the Bank in the area of modernization of the State, since it is directed to strengthen the fiscal capacity of the state and to improve the efficiency and transparency in expenditure management.

**Environmental/
social review:**

Given the nature of the activities to be financed, no direct environmental impact is anticipated.

Benefits: **First**, the program will contribute to raising revenue levels through increasing the efficiency of the tax administration, and reducing tax system distortions and promoting horizontal equity. The resulting improved revenue outlook would permit the authorities to undertake the adoption of the VAT in the medium term. **Second**, by improving financial management practices (PFM) the program will contribute to reduce discretion and increase transparency in the management of public funds. **Third**, by supporting the operationalization of the constitutional reforms in the areas of public audit and financial and fiduciary oversight, the program will contribute to the strengthening of the role of parliament in economic policy, in consensus building and in overseeing policy implementation.

Risks: The risks identified for this operation are related to the policy environment and those that could affect institutional effectiveness. In the first case, the risk is associated to the firm and continuous political support that the reform requires. The GOG's authorities have been offering firm support to the reform and when the program was being prepared they confirmed their direct commitment to the process. A clear indication of this commitment is the establishment of the core legal framework to guide the reform, as the initial action of the program.

It should be also noted that the activities supported by the fiduciary oversight subcomponent are potentially vulnerable given the fragile relations between the ruling and opposition parties; this risk is particularly important regarding the nomination of the members of the Public Procurement Commission that requires a 2/3 majority of Parliament. To partially mitigate this risk, during the preparation of the program direct consultations with political leaders of main parties were undertaken in order to verify their commitment to the reform.

In relation to institutional effectiveness, it is necessary to note that the institutional environment for implementation of the reforms is a challenging one. As a result of one of the highest rates of emigration in the hemisphere, the human resource base and institutional capacity in Guyana has been severely eroded in recent decades. To ameliorate these problems, the emphasis of the proposed program is upon capacity building in the four main institutions responsible for implementation of the reforms.

**Coordination
with other
development
institutions:**

This operation has been carefully coordinated with other creditors and donors. In particular, there has been a close cooperation with the World Bank and IMF on structural measures, and many of the measures supported by this operation are also supported by the PRGF (see ¶ 1.40).

Special contractual clauses:

Policy-based component: Disbursements will be made on three tranches of US\$5 million each, and will be subject to the fulfillment of the conditions precedent for each tranche shown in the policy matrix shown in Annex I (see ¶ 3.26).

Investment component: In addition to the general conditions of the loan agreement, prior to the first disbursement, the Borrower must submit to the Bank evidence that: (a) the Project Coordination Unit (PCU) has been established, (b) the Steering Committee (SC) has been established to carry out policy and administrative guidance, and (c) the Program Operations Manual has been enacted (see ¶ 3.27).

Prior to the first disbursement to support the activities of each subcomponent, the borrower must submit to the Bank: (a) evidence that the PEU has been established: and (b) the Annual Operation Plan for the first year (see ¶ 3.28).

Prior to disbursement of the financing for subcomponent 3 the borrower must comply with the following conditions: (a) for the activities to be carried out by the National Assembly, the PEU and the National Assembly have signed Memorandum of Understanding for that purpose, and (b) for the activities to be carried out by the PPC, the PEU and the PPC have signed Memorandum of Agreement for that purpose (see ¶ 3.29).

Notwithstanding the above paragraphs, but after the conditions prior to the first disbursement stipulated in Article 4.01 of the General Conditions of the Loan Contract have been complied, the Ministry of Finance will be allowed to request disbursements up to the equivalent of US\$300,000 of the loan amount. These resources will be geared towards the establishment of the PCU and the fulfillment of the special conditions prior to the first disbursement (see ¶ 3.30).

Poverty-targeting and social equity classification:

This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as poverty targeted investment (PTI) (see ¶ 4.11).

Exceptions to Bank policy:

Since the MOF has, with CIDA assistance and through GEMP-3, competitively selected the E-Free Balance software as the basis for the Government IFMAS, the GOG has requested the Bank for an exception to its competitive rules to apply directly loan funds to extend the application of the E-Free Balance software, and obtain directly from the firm provider of the software the modules for budget formulation, procurement, asset management, automated bank reconciliation, revenue interface, and the software to improve the reporting capabilities of the system. Such a procurement

operation complies with the criteria established in the Procurement Manual (GS-311) for making an exception to the international competitive bidding procedure established in Bank policies.

Procurement:

Procurement of goods and consulting services will be done according to Bank standard procedures. The procurement of goods and related services equal to or exceeding the amount equivalent to US\$250,000 and consulting services exceeding US\$200,000 will be made through international bidding, open to all IDB member countries.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 The Government of Guyana (GOG) has requested that the Bank prepare a sector reform program to support the more efficient and transparent management of its fiscal affairs. The program follows the recommendation stipulated in the Bank's Country Strategy Paper by supporting key reform measures in the areas of fiscal and financial management.

B. Macroeconomic context

- 1.2 **Macroeconomic performance:** Economic development in Guyana was stymied in the 1970s and 1980s by a State-led development strategy that reduced GDP per capita to one of the lowest levels in the Region. Beginning in 1988, policy reforms in the fiscal, monetary, exchange rate and structural areas successfully stabilized the economy and gave the private sector a wider role. The liberalized policy framework had highly positive effects from the early 1990s onwards: during 1991-1997, real GDP growth averaged 7% per year, while inflation was reduced from over 100% in the late 1980s to 4.5% in 1997. GDP per capita more than doubled, from US\$482 in 1990 to an estimated US\$1,000 in 1997, and this supported a decline in absolute poverty at the national level from 43% in 1993 to 35% in 1999.
- 1.3 Since 1997, however, macroeconomic performance has experienced broad decline. Although inflation has remained low, GDP growth averaged just 0.5% in the 1998-2003 period, while fiscal and external deficits have widened. A number of important factors have contributed to the deterioration in performance, including (a) adverse movements in the terms of trade; (b) large public sector wage increases; (c) declining tax revenues; (d) political instability; (e) increasing rates of crime; and (f) the slowing pace of structural reform.

Table I-1. Selected Macroeconomic Indicators

	1998	1999	2000	2001	2002	2003
Real GDP growth (%)	-1.7	3.0	-1.3	12.3	1.1	-0.6
GDP per capita (US\$) ^a	883	900	945	942	958	975
Inflation (average annual, %)	4.6	7.5	6.1	2.7	5.3	5.6
Exchange rate (US\$:G\$, year-end)	165	181	185	190	192	194
Public sector deficit (% GDP, before grants)	-6.8	-6.1	-14.0	-15.2	-14.0	-13.1
Current account deficit (% GDP, before grants)	-15.8	-14.0	-15.3	-14.8	-11.5	-17.7

- 1.4 **HIPC initiative:** Guyana's weak growth performance in recent years has come despite a favorable new framework for external assistance under the HIPC initiative. Debt relief flows to the country under HIPC averaged 4.8% of GDP in the 1999-2003 period, and this figure is set to rise to around 8.2% of GDP in 2004-2008.

- 1.5 Guyana qualified for both the Original and Enhanced HIPC initiatives on the basis of the fiscal criterion, which established a ceiling for the net present value (NPV) of debt to revenues of 280% under O-HIPC, and 250% under E-HIPC (this compared to a 1996 ratio of 470% in Guyana). The country attained completion point under O-HIPC in May 1999, and after a delay of two years occasioned by slippage on fiscal policy and structural reforms, the completion point under E-HIPC was also finally reached in December 2003. With relief to Guyana under the two initiatives totaling US\$560 million in net present value (NPV) terms (US\$256 million under O-HIPC and US\$334.5 million under E-HIPC), Guyana's external debt has been more than halved in relation to its level at the end of 1998.
- 1.6 **Outlook:** Guyana's key challenge now is to reactivate growth as the central element of a comprehensive strategy to reduce poverty in the country, whilst maintaining external debt at sustainable levels. Under the current PRGF program, however, growth is forecast to reach an average annual rate of only 1.5% in the 2004-2008 period, owing to low levels of private investment and the winding down of major gold mining operations. If the country is to raise its growth potential and reduce its vulnerability to external shocks, there is a pressing need to both improve the competitiveness of the traditional sectors (sugar, rice and bauxite) and to identify new sectoral sources of growth and employment.
- 1.7 In the light of these challenges, the country's Poverty Reduction Strategy (PRS), which was completed in March 2002, seeks to reinvigorate economic growth through the adoption of structural reforms aimed at removing the major impediments to private investment and by maintaining a solid macroeconomic framework based upon price stability and fiscal and external sustainability.

C. Fiscal policy and institutions: current situation and challenges ahead

1. The fiscal situation

- 1.8 Public expenditures in Guyana represent a very large component of the economy. At 47.3% of GDP in 2003, the size of Central Government expenditures is high compared to the averages for Latin America and the Caribbean (22%), although economic output in Guyana is thought to be substantially underestimated. Total expenditures declined from an average of 57.6% GDP during 1989-1991, to 39.9% of GDP in 1999, increasing thereafter in the period 2000-2003, owing to increases in public sector wages and capital expenditures. The latter declined from 19% of GDP in 1996 to 12% of GDP in 1999, but has since resumed a broad upward trend. This trend will continue in coming years, since under the Poverty Reduction Strategy public investment is expected to reach an average of 15.67% of GDP during the period 2004-2007.
- 1.9 Guyana's large public expenditure exceeds its revenue. Revenue collection is heavily dependent on taxes, which represent more than 90% of total Central Government current revenues. However, tax collection has dropped from a peak of 34.7% of GDP registered in the period 1992-1994 to 29.1% of GDP in 2003,

despite the Government's efforts to implement reforms and institute various tax measures over the last decade, including the creation of a new and integrated collection agency in 2000. There are several factors that contributed to that result, among them at least three are important to note. **Firstly**, the reduction of tax contributions from international trade associated to the trade liberalization agreements. **Secondly**, the ample tax holidays, and customs and tax exemptions granted, often on a discretionary basis. **Thirdly**, improvements to the collection and administration of taxes following the merger of the customs and tax administration into a single Guyana Revenue Authority (GRA) have been slow.

Table I-2. Summary of Central Government Operations (As percent of GDP)					
	1989-91	1992-94	1999	2001	2003
Total Revenues	31.8	36.2	29.9	33.0	33.6
Tax revenue	29.5	34.7	27.9	28.7	29.1
Total Expenditures	57.6	46.4	39.9	48.2	46.7
O/w Capital Expenditures	16.3	12.3	11.8	13.9	14.1
Overall Balance before grants	-25.7	-10.2	- 6.1	-15.2	-13.1
Overall Balance after grants	-16.3	- 6.0	- 2.7	-7.0	- 8.6

2. Challenge 1: Attain fiscal sustainability

- 1.10 Although Guyana's fiscal gap has been financed to a significant degree by grant resources (especially since 1999 as result of HIPC debt relief), the deficit after grants has also become increasingly large, and could jeopardize the country's macroeconomic stability. Moreover, debt relief flows are set to decline steadily after a peak of 8.7% of GDP in 2004. The most urgent macroeconomic policy challenge will therefore be to ensure the maintenance of a sustainable debt position through the adoption of revenue and expenditure measures aimed at reducing the fiscal deficit (this need is even more pressing when the expected increase in public investment under the PRS is taken into consideration.)
- 1.11 On the expenditure side, the persistently high level of government spending in Guyana underlines the need for a sound program of expenditure rationalization in the long term. Improvement of financial management systems (see below) will be essential in order for this to occur. In the short- to medium-term, however, a substantial curtailment of expenditure will not be feasible. In fact, the GOG program supported by the IMF under the PRGF envisions a slight increase in current non-interest expenditure (as a proportion of GDP) through 2007, owing to higher poverty-reducing spending agreed with the international community under the framework of the Poverty Reduction Strategy. Government expenditures associated to poverty reduction programs and projects under the HIPC Initiative are expected to be in average equivalent to 16% of GDP.
- 1.12 Instead, the PRGF program calls for a moderate increase in the tax burden over the next few years, with tax revenues projected to rise from 28.3% to 29.6% of GDP in 2002-2007. In order to achieve this objective, improvements are needed to both the tax system and tax administration.

a) Tax system

- 1.13 A study of the tax system conducted in 2002 by a team of IMF/CARTAC³ experts indicated three main problems. **First**, the base of the tax system is narrow because of widespread tax evasion, extensive exemptions – a large portion of which are granted on a discretionary basis – and a consumption tax which excludes services from its base.
- 1.14 **Second**, the system is distortive because it does not tax a large part of the fast growing service sector, and has a wide dispersion of consumption tax rates and extensive exemptions. The system discriminates against the consumption of goods in favor of services, and the exclusion of services from the tax base means that the capacity to mobilize revenue at relatively low tax rates is limited. The result is high tax rates for basic commodities, and a wide dispersion of rates on goods, that also distorts consumer choice.
- 1.15 **Third**, the system is inequitable because of the low threshold of the personal income tax, compounded by the fact that a personal income tax is effectively a tax on employees since it is largely evaded by the well-off self-employed.
- 1.16 In order to improve revenue levels whilst enhancing the efficiency and equity aspects of the tax system, the IMF/CARTAC team recommended the adoption of a comprehensive tax policy reform, followed by a strengthening of the tax collection agency. Recommended tax policy reforms include: (a) curtailing tax holidays and discretionary tax exemptions, (b) increasing taxation of the self-employed, (c) increasing the threshold for personal income taxes and (d) broadening of the base for the consumption tax, by taxing services, with a view to introducing a Value Added Tax (VAT) in the medium term (the authorities have announced that a VAT will be introduced in 2006).

b. The tax administration

- 1.17 Tax and customs administration functions are performed by the Guyana Revenue Authority (GRA). This institution was effectively established in January 2000 under the Revenue Authority Act of 1996 as a semiautonomous institution, and it comprises the Internal Revenue Department (IRD) and the Customs and Trade Administration (CTA). At the top of the GRA, is a governing board (appointed by the Minister of Finance), and a commissioner general, appointed by the president.

³ *Guyana: Tax Policy and Tax and Customs Administration Reform*, International Monetary Fund (IMF, Fiscal Affairs Department and Caribbean Regional Technical Assistance Center (CARTAG), September 2002.

- 1.18 As a semiautonomous institution, the GRA has considerable independence in managing its finances. Once its budget⁴ is approved, the GRA can execute it, subject to the control of the auditor general. In contrast, the GRA has no autonomy to recruit or dismiss its staff. Every appointment or removal of personnel has to be approved by the Minister of Finance. This has caused important delays in dismissing or recruiting key personnel and has limited the effectiveness of its human resource management system.
- 1.19 The September 2002 IMF/CARTAC assessment report indicates that while the creation of the GRA has brought some improvements, these fall far short of what was expected; as a result, the tax administration remains weak. In particular, the report highlights the following issues:
- a. The processes and procedures used to examine tax payments and trade operations are complex, cumbersome and sometimes inconsistent. In addition, most of the work performed by the administration, heavily rely on manual practices.
 - b. The taxpayer register is not up-to-date and there is a need to introduce a new taxpayer registration system as a matter of priority. The administration does not have a system to record and monitor the tax exemptions granted, and a new system to control commercial invoices is required in view of the introduction of the VAT in 2006.
 - c. The IT systems need to be redesigned and modernized and cover all tax and customs administration functions. Currently, the information technology does not provide adequate support to GRA operations. The old ASYCUDA version 2.7 system (used for customs control) and the TAXADMIN system (used for control of domestic taxes) are outdated and do not satisfy the requirements of a modern tax administration. The IT staff is small, overwhelmed with the maintenance of current systems and without resources to develop new applications. In addition, the existing computers are obsolete and need to be replaced.
 - d. The audit function is relatively ineffective as a result of the fragmentation of the audit responsibilities and the small number of well-trained auditors. There are three units in charge of the audit/verification of taxpayer compliance. There are problems of coordination among the units, and the procedures and the type of information provided to management is not standardized.
 - e. The custom legislation is obsolete and does not respond to present day trade requirements. The customs Act 69 of 1952 has been amended about 40 times and there is a need to enact a new legislation based on the CARICOM draft of harmonized customs legislation.

⁴ Total expenditures of the institution amount about 2.4% of revenues.

- f. Technical training is limited and the personnel with strong academic background represent less than 20% of the total. In addition there are problems associated to high personnel turn over.
- 1.20 The central conclusion of the assessment is that the IRD and CTA systems and procedures need urgent reforms, and that these reforms should focus on simplifying procedures, revamping IT systems, and introducing enforcement measures to increase revenue in the short and medium term. Based on the report's recommendations, the GOG authorities have outlined a reform plan comprised of activities directed to strengthen the institutional and technical capabilities of the GRA in order to support collection of existing taxes and to provide the GRA with the technical pillars for the administration of the VAT, once it is introduced in 2006.

3. Challenge 2: Enhance financial management to improve transparency and accountability

- 1.21 Despite the high level of public expenditures in Guyana, there is a growing local perception (expressed in the public consultations for the preparation of the PRSP) that these are failing to contribute to growth and poverty alleviation. There is a similar expectation on the part of the international community that the substantial resources being offered in support of PRSP implementation will be used in an effective and transparent manner to achieve the strategy's targets. In short- to medium-term, therefore, significant improvements to the management of public finances will be needed in order to satisfy these concerns and to ensure that higher public spending is effectively translated into reduced levels of poverty. In the long term, additionally, improved financial management will also be necessary to ensure fiscal sustainability through a reduction in the overall level of expenditures.
- 1.22 A series of reports published by the WB – *Country Procurement Assessment Report (CPAR)*, 1998⁵; *Country Financial Accountability Assessment (CFAA)*, 2002; *Guyana Public Expenditure Review (PER)* 2002, however, underline the fact that the country's public sector financial management systems and processes are basic, obsolete and fragmented. The systems in place are cumbersome for the agencies and the Ministry of Finance to use for monitoring their current financial position.
- 1.23 In regard to this conclusion, the CFAA recommends the adoption of a series of actions aimed at: (a) upgrade the systems and processes for public financial management; and (b) improve oversight of public financial management and increasing the accountability of public officials.

a) Systems and processes for public financial management

- 1.24 There is no uniform government wide approach to modern financial management practices. According to the CFAA, the lack of integration among budget and

⁵ IDB is currently financing an update of the CPAR for the Caribbean countries. The study is being conducted by CARICOM.

accounting systems, the inaccurate and sometimes incomplete information on public financial matters, impede a good decision making process and create the opportunity for misappropriation and misuse of public funds. In particular, the CFAA highlights the following issues:

- a. The best-developed component of the system is related to budget preparation, as a result of the efforts of the past few years to develop the recurrent budget based on programs with the support of the GEMP3, a Canadian funded program. However, that in spite of these improvements, there are several issues that need to be addressed. **First**, the budget is not fully set within a forward-looking rolling expenditure planning framework. **Second**, the current and capital expenditure budgets are prepared separately, without planning of future recurrent costs, and for their formulation the Ministry of Finance use different nomenclatures, charts of accounts and systems. **Third**, the budget is often presented to Parliament with significant delays, affecting budget implementation; the systems for monitoring compliance with the budget are also fragmented limiting the capacity to compare actual expenditures to budget, which is an instrument of economic discipline.
 - b. The government accounting system in place is used to track government accounts in the aggregate, it is not used as a management tool by individual ministries. The entire accounting system is manual and still maintained in manual ledgers. The Accountant General Department is working under improper physical conditions, and most of its systems are manual.
 - c. One of the major impediments for the modernization of financial management practices lays in the existing Finance Administration and Audit Act. This Act has been modified several times, and the changes have created inconsistencies. In addition, it contains provisions that prevent changes to procedures and process for accounting and record keeping operations (i.e. it imposes that records should be kept manually).
- 1.25 Coinciding with the CFAA's recommendations, the GOG has identified the need to undertake a serious reform of the public financial management systems, including: (a) the establishment of a new and adequate legal framework, (b) the streamlining and re-engineering of the treasury and budgetary processes and procedures; and (c) the development and implementation of a modern integrated financial management information system

b) Oversight of public financial management

- 1.26 The recommendation of the World Bank's CFAA that the oversight of public financial management and the accountability of public officials be improved builds upon a number of constitutional reforms that have already been initiated in Guyana. As a result of the Herdmanston Accord signed by the two main political parties in the wake of the disputed 1997 elections, a series of constitutional amendments were passed in 2000-2001, several of which relate to financial

oversight. The political process surrounding these constitutional reforms has since been a difficult one, however. A lack of progress in their implementation was one of the main causes of the breakdown in the political dialogue between the two parties in early 2002, which led to the withdrawal of the opposition PNC/R from parliament for a period of 14 months. A new political accord was signed in May 2003, leading to renewed, albeit slow progress in implementation of the constitutional reforms. However, recent tensions between the two parties have once more underlined the fragility of the bipartisan process, with the PNC/R withdrawing from the dialogue at the beginning of April 2004 and implementing a policy of selective non-participation in parliamentary activities.

- 1.27 Three main bodies are involved in the oversight of public financial management: the **Office of the Auditor General (OAG)**, the **National Assembly**, and the **Public Procurement Commission (PPC)**.
- 1.28 The **OAG** is mandated to conduct financial and performance audits of all publicly funded entities in Guyana, including the judicial and legislative branches of government, central and local government, autonomous agencies, public enterprises (by agreement), and trade unions. However, it has traditionally faced considerable difficulties in fulfilling this mandate. Independence was curtailed by the executive's right to appoint the Auditor General, and by the requirement that the OAG report to the executive. In addition, technical capacity has been constrained by low levels of staffing (with some 40% of positions vacant), weak organizational and human resource management and a deficient IT infrastructure.
- 1.29 In response to the first of these challenges, a constitutional amendment was passed in 2001 to enhance the independence of the Auditor General. As a result of this amendment, the Auditor General may now seek approval for OAG annual budgets and submit his final reports directly to the Public Accounts Committee (PAC) of the National Assembly, instead of the Minister of Finance. In order to fully implement the constitutional amendment, however, a new Audit Law is required, as well as a new Policies and Procedures Manual for the OAG. With IDB consultant assistance, a new Audit Act was drafted and submitted to the National Assembly in May 2002. A Policies and Procedures Manual (PPM) for the OAG was also outlined, and is currently in the final stages of drafting with Bank support. Once these prior conditions have been fulfilled, a US\$600,000 Bank technical cooperation (ATN/SF-8184-GY) to support the institutional strengthening of the OAG will be implemented.
- 1.30 The **National Assembly** has established two committees with responsibility for financial oversight. The first, the **PAC**, is a long-standing body, with responsibility for reviewing the expenditure of all public monies approved by the National Assembly. The PAC, on behalf of the full House, examines and reports on the Auditor General's reports. The second, the **Economic Services Committee (ESC)**, is a newly established body. It is one of the new parliamentary standing committees stemming from the constitutional amendments approved in 2001. Owing to the breakdown in the political dialogue, however, its members were

only recently appointed, in June 2003. The amended constitution does not set out a clear role for the ESC, but the CFAA identifies it as the principal consultative medium in the Assembly for discussing and resolving budgetary, accountability and governance issues.

- 1.31 Both the PAC and the ESC face considerable challenges in fulfilling their mandates. In the case of the ESC, there is a need to clearly define the committee's remit, with particular reference to its ability to review the Budget and other public sector financial management legislation prior to enactment. In both the PAC and the ESC cases, there is a need to establish transparent and equitable rules and regulations to govern proceedings (particularly in the case of the ESC), ensuring the participation of the private sector and civil society, and to alleviate serious resource constraints in order to enable a high standard of professional activity.
- 1.32 The **PPC** is one of the new independent commissions created through the constitutional amendments of 2000-2001. Once constituted, the PPC will be responsible for ensuring that the purchasing of goods and services and the execution of works by public institutions are done in a fair, equitable, transparent, competitive and cost-effective manner. However, in spite of the fact that the political dialogue was reinitiated in May 2003, the two main parties have been unable to reach agreement over the composition of the PPC. This situation has recently become more complex as a result of a renewed weakening of the dialogue between the two parties, although the PNC/R has committed to engage in discussions where the Constitution requires the government to consult with the opposition parties (as in the case of the PPC). Given that the revised constitution also gives the PPC the responsibility for approving rules and procedures related to the recently approved Procurement Act, it is important that the PPC members be appointed soon in order to allow the approval of regulations to be drafted in 2004.
- 1.33 Once established, the PPC is likely to face the same needs for support as the PAC and the ESC, in terms of procedural guidance, capacity building and support for public outreach. .
- 1.34 In summary, improving the function of oversight of public financial management of Guyana, will require the adoption of a specific set of actions and initiatives directed to: (a) support the establishment of the PPC, and enhance the operation of the two National Assembly Committees in charge of the financial oversight function; and (b) promote greater independence of the OAG, by enacting the new Audit Law and by restructuring and strengthening the OAG in order to ensure fulfillment of its constitutional mandate

D. The PRGF Agreement with the IMF

- 1.35 The GOG holds a three-year PRGF Arrangement with the IMF since September 20, 2002. The Executive Board of the IMF recently approved the first review under the arrangement and the program for the second year. The program contains a Multi-Annual Framework's fiscal deficit targets for 2004 and 2005, and it clearly

establishes the Government's commitment to carrying out a tax reform, to strengthen the tax administration, and to continue making progress in its fiscal reform agenda. In order to implement its ambitious reform agenda in the areas of fiscal and financial management, the GOG has requested assistance from the Bank.

- 1.36 From the financing perspective, the PRGF Arrangement establishes the medium-term financing needs of the country, and the projected official capital flows. These projections incorporate the assistance to be provided by the multilateral agencies, as balance of payments support, including the proposed operation.

E. Previous actions conducted by the Borrower

- 1.37 Within the ambitious fiscal reform agenda, the authorities have undertaken several initiatives in the areas of fiscal and financial management. These initiatives are being taken into account in the preparation of the proposed operation. First in the area of tax policy and administration, during the first semester of 2003, the Government adopted the following measures: (a) an increase in the withholding tax on interest income from 15% to 20%; (b) an increase in the consumption tax on fuels (from 35% to 50% for gasoline) and an increase in the consumption tax on beer from 40% to 50%; (c) the appointment of a Commissioner and Deputy Commissioner General of the GRA, and the recruitment of tax officers to verify consumption tax returns.
- 1.38 Regarding public sector financial management, the third phase of the Guyana Economic Management Project (GEMP3) was initiated, providing important technical and financial support to the Government's institutional reform in this area. The GEMP3, a project funded by the Canadian International Development Agency (CIDA), has been providing assistance to the Government since 1996, and it contributed to improve budget preparation, by emphasizing the adoption of program budgeting at the Ministry of Finance and other key ministries on a pilot basis. Under the new phase, GEMP3 will support the implementation of a modern financial and accounting integrated system, the streamlining of procedures and the production of planning and performance information on spending agencies.
- 1.39 Political developments over the last year have also facilitated some progress with respect to the oversight bodies for financial management. After one year of absence, the opposition returned to parliament in May 2003, allowing the creation of a number of parliamentary committees envisaged under the constitutional amendments of 2001, including the ESC.

F. Coordination with other official development institutions

- 1.40 This operation has been carefully coordinated with other creditors and donors, and the actions supported under the program are those that fit within the comparative advantage of the Bank. There has been a close cooperation with the World Bank and IMF on structural measures, and many of the measures supported by this operation are also supported by the PRGF. On critical areas of tax administration the team coordinated with CARTAC and the CBD, while for the area of financial

management, actions were coordinated with the GEMP3-CIDA project and the European Union. In addition, during project preparation, the team has consulted and worked cooperatively with UNPD, USAID, DFID and CIDA regarding the support to Parliament.

G. Bank's strategy and justification for participation

- 1.41 The Country Strategy Paper (CSP) for the 2002-2005 period was approved by the Board of Directors in November 2002, and focuses on the promotion of sustainable growth, social development and poverty alleviation. The strategy seeks to address Guyana's major development challenges: (a) maintaining a sound macroeconomic framework for sustained growth and private sector development; (b) improving governance and public sector modernization; (c) improving social sector infrastructure and service delivery; and (d) improving basic economic infrastructure.
- 1.42 The proposed Fiscal and Financial Management Program spans the first two strategic areas. In supporting a strengthening of the revenue base and providing a framework for the efficient rationalization of public spending, it will help to underpin the fiscal basis for sustained economic growth. At the same time, the program is listed as a key public sector modernization program in the CSP. The essential nature of the activities it aims to support is reflected in the fact that benchmarks from the program constitute the majority of the performance indicators listed in the CSP as triggers for the maintenance of the baseline lending scenario in the 2002-2003 period. Over the second half of the country strategy period, continued compliance with agreed sector loan conditionality will also be required for the baseline scenario to be maintained.
- 1.43 The proposed program is also fully compatible with the strategy of the Bank in the area of modernization of the State, since it is directed to strengthen the fiscal capacity of the state and to improve the efficiency and transparency in expenditure management. In particular, the Bank's strategy in the area is intended to support the reform and strengthening of institutions that like the MOF, the GRA and the constitutional oversight bodies play a key role in the functioning of the country's public sector.

1. The program's strategy

- 1.44 Given the institutional weakness identified during the project preparation, it was evident that the success of a reform program in the areas of fiscal and financial management in Guyana would require the political will to enact a new legislative framework, as well as the strengthening of the technical capability of the public entities that would lead the reform implementation process. The reform initiatives, their content and scope, as well as their expected results, heavily depend on the capacity of the public institutions to adapt their systems and procedures to the reformed policies. While an investment operation would be suitable to finance the activities that will ensure that the required institutional capacity is met, a policy base operation would be recommended to support the ambitious reform program

of the GOG. Consequently, as part of the strategy for the preparation of the program, a hybrid-loan was chosen as the appropriate lending instrument.

- 1.45 The adopted strategy for the program design was guided by two key objectives. First, support for the full implementation of legislative reforms in the area of fiscal and financial management, through strengthening of the institutional capacity for implementation (through the investment component), and measurement of implementation and outcome benchmarks (through the policy matrix). Second, ensuring that the program focuses on fiscal and financial management issues that could be realistically resolved in the medium term, given the current political and institutional set ups.

2. The Bank's contribution through the present operation

- 1.46 The Bank's contribution is not related to the identification of the needed reforms. The needed reforms were already identified by the Guyanese society some years ago, at the time of approving the amendments to the national constitution, and while preparing the PRS. The Bank's contribution through this operation is associated to the support provided to the GOG authorities in the definition of the quality and sequential order of the reforms, as well as to the intensity with which the program's initiatives should be carried out. The proposed operation highlights Bank's consistent and timely support to the policy reform initiatives of the GOG.

H. Bank's Experience and lessons learned

- 1.47 In the past decade, a variety of sector programs have been approved with strong fiscal reform components. In addition, the Bank has considerable experience of comprehensive strengthening programs in agencies responsible for public finance in a number of countries, along with several technical cooperation projects in specific areas of public finance, such as tax administration, fiscal statistics, public debt, public investment systems and so forth. In the case of Guyana, the Bank provided in the early 90s a nonreimbursable technical cooperation to support a program of institutional support for the Ministry of Finance, the Office of the Auditor General and the Guyana Environmental Agency (AT-833).
- 1.48 Regarding the sector reform programs, the lessons learned through these operations indicate that fiscal reform requires leadership in execution and strict supervision and governmental support at the highest level, combined with considerable assistance from the Bank. While for the institutional strengthening programs, the Bank's experience suggests that the development and achievement of the program objectives is facilitated by: (a) the existence of a strategy of consistent change, with realistic, and measurable sustainable performance indicators; (b) a close coordination, participation and cooperation with the beneficiaries in the design stage, stressing the definition of the objectives and benchmarks of the program; and (c) the need for comprehensive programs to address the main operating processes of the administration. Accordingly, the proposed program has been designed taking into consideration the experience

with other projects in the region, the size of the country and the diversity of institutional capacity of the public entities that will participate in the program.

II. THE PROGRAM

A. Objectives

- 2.1 The objective of the program is to assist the GOG in implementing a reform agenda aimed at improving the management of public finances, thereby providing a strong fiscal basis for sustained growth. Consistent with this objective, and in the context of a stable macro-economic framework, the operation is intended to: (a) improve the efficiency and equity aspects of the tax system, and (b) contribute to a more efficient use of public resources by strengthening public sector financial management and public auditing and fiduciary oversight.

B. Description

- 2.2 The program consists of two interrelated components: (a) a PBL component; and (b) an investment component, both aimed at supporting implementation of the reform program. The first component will be supported by a loan of US\$15 million, while the size of the second component is defined on the basis of cost estimates for specific investment and technical assistance activities, that are estimated at US\$14 million, of which US\$12.6 million will be financed by the Bank, through an investment loan.

1. Policy-based component (US\$15 million)

- 2.3 This component is intended to support the adoption and implementation of a series of reforms to the tax, financial management, audit and fiduciary oversight systems, with the aim of ensuring more efficient and transparent fiscal management.
- 2.4 Regarding tax policy and administration, the reforms will be built upon the recently approved tax reform, which represent a major commitment of the Government to promote improvements in fiscal management. While this program was in the middle of the process of preparation, on August 23, 2003, the Government of Guyana enacted a tax policy reform package consisting of: (a) the extension of the consumption tax (CT) to hotel and professional services and imposition of a 10% tax on all domestic telephone calls; (b) the introduction of a presumptive income tax on the self-employed and an increase in the license fee for professional businesses; (c) the elimination of Government discretionary powers to grant tax exemptions to commercial undertakings or individuals, and limitation of other exemptions to exceptional humanitarian cases; and (d) the limiting of tax holidays to specific regions and sectors, for limited periods.
- 2.5 In the area of financial management, the reforms will be built upon the developments of the GEMP-3 regarding the definition of the new institutional and legal framework for financial management, as well as the implementation of the Integrated Financial Management System (IFMAS). In recent months the implementation of the IFMAS has been accelerated, and starting January 1, 2004,

most of the financial transaction of the central government are being recorded in the system. The activities of the program in this area will also benefit from the Bank's Technical Cooperation to Strengthen the Public Investment Management System (ATN/SF-8199-GY).

- 2.6 The reforms and program interventions related to public audit and oversight of public financial management will build upon a number of constitutional reforms that have already been initiated in Guyana, which are related to the independence of the OAG, the creation of the PPC, and the operation of the Parliamentary Committees responsible for financial oversight.
- 2.7 The financial support under this PBL component will be disbursed in three tranches. For each tranche, specific benchmarks have been agreed with the GOG authorities to monitor the program implementation. **Specifically, the planned reforms in the areas of tax policy and administration, expenditure and financial management, and fiduciary oversight will follow a sequence of actions, involving legislative, and intermediate and final implementation benchmarks, as summarized in the conditionality matrix of Annex I.**
- 2.8 **First tranche (US\$5 million):** It is envisaged that for the first tranche, the program will support the establishment of a new legislative framework in the three areas of intervention. Since the recent enactment of the tax reform package constitutes an important first step in achieving the reforms proposed for the present operation, disbursement of the first tranche will be conditioned to the adherence to the macroeconomic framework consistent with the objectives of this program, and compliance of the following conditions:
- a. Tax policy and administration: An amendment to the GRA Act to allow for full autonomy in the management of its human resources has been enacted (condition complied in December 2003).
 - b. Financial Management: The new Fiscal Management and Accountability Law has been enacted in accordance with CARTAC/CIDA and Bank's recommendations (condition complied in December 2003).
 - c. Audit and Fiduciary Oversight: (i) The new Audit Law has been enacted in accordance with the 2001 constitutional amendment and Bank recommendations (condition complied in April 2004), and (ii) the Rules, Policies and Procedures Manual for the OAG has been approved.
- 2.9 **Second tranche (US\$5 million):** Program actions for the second tranche will support the implementation of key institutional and operational aspects of the reforms. Efforts will also be devoted to complement the legal framework. Consequently, in addition to verifying that the macroeconomic performance of Guyana is consistent with the program objectives, disbursement of the second tranche will be conditioned on the compliance with the following intermediate implementation benchmarks:

a. Tax policy and administration:

- i. Legal: (a) a legal framework consistent with the modernization of customs operations is established; (b) the regulations for the implementation of the presumptive income tax on self-employed have been issued⁶.
- ii. Tax exemptions: (i) a modern system for controlling and recording tax exemptions is established, (ii) the tax exemptions that were granted during the previous fiscal year have been published⁷.
- iii. GRA systems: (a) a new and unique taxpayer identification number (TIN) is implemented; (b) a new system of commercial invoice controls is implemented; (c) GRA's computerized information systems for customs and domestic tax administration have been procured and their customization and implementation have been initiated.

b. Financial management:

- i. Legal: The regulations for the implementation of the new Fiscal Management and Accountability Act have been issued.
- ii. Procedures: (a) new procedures (for treasury and budget), budget classification and plan of accounts have been issued, (b) new procedures for project selection and prioritization are defined and approved; and (c) a single system of classification of accounts to integrate the current and capital budget has been adopted.
- iii. IFMAS: The Integrated Financial Management System is in operation in the Ministry of Finance for the last six months and it has been implemented in at least three (3) other ministries.

c. Audit and fiduciary oversight:

- i. New rules, procedures and operational policies needed to enable the ESC and PAC of the Parliament to perform their oversight role have been established.
- ii. The members of the Public Procurement Commission (PPC) have been appointed and the PPC is functioning.
- iii. The procurement regulations and procedures have been approved by the PPC as mandated by the Constitution.

⁶ A group of self-employed professionals has recently challenged the constitutionality of the law introducing this tax. The High Court is currently considering this case. In the event that relevant provisions of the tax law amendment are struck down by the High Court, the Borrower and the Bank will agree on the appropriate alternative.

⁷ Information is published in a national newspaper and on the GRA's Web site.

2.10 **Third tranche (US\$5 million):** For the third tranche, the program will support the operation of standardized systems and the adoption of general practices to promote transparency in fiscal and financial management. Thus, in addition to verifying that the macroeconomic performance of Guyana is consistent with the program objectives, disbursement of the third tranche will be conditioned to the compliance of the following final implementation benchmarks:

a. Tax policy and administration:

- i. Tax reform: (a) the consumption tax on services and the presumptive tax on the self-employed⁸ are being collected as established by the tax reform laws; (b) the regime for tax exemptions adopted in 2003 is maintained, and (c) the tax exemptions that were granted during the last fiscal year have been published⁹. (d) an estimate of the tax expenditures is used for preparation of the budget of the then-current fiscal year.
- ii. GRA Systems: (a) a computerized information system is implemented and in full operation to support the customs control performed by the CTA; and (b) a modern tax administration IT system for the IRD has been implemented and in full operation.

b. Financial management:

- i. IFMAS is operating in all ministries. At least three enhanced functions of the IFMAS are incorporated.
- ii. The budget of the then-current fiscal year has been formulated in accordance with the provisions of the new Fiscal Management and Accountability Act and new procedures for project selection and prioritization have been implemented.
- iii. Information: (a) Central Government financial statements produced by the IFMAS are auditable and meet applicable international accounting standards, and (b) the Central Government has fully complied with the obligations to report and publish of information as mandated by the new Fiscal Management and Accountability Act.

c. Audit and fiduciary oversight:

- i. The Minister of Finance issues to the Parliament a Treasury Memorandum detailing the status of actions to respond to the PAC audit recommendations in accordance with national legislation.
- ii. The MOF has established a system for monitoring the actions taken by public entities in response to audit recommendations.

⁸ See footnote 6 regarding the tax on self-employed.

⁹ Publication requirements are the same as of footnote 7.

2. Investment component (US\$14 million)

- 2.11 The activities included in the investment component will assist the GOG in achieving and sustaining the reform benchmarks identified in the sector reform program by financing the required investments and operational improvements at the institutions that will lead the implementation of the reform agenda. The loan funds that will support this component will finance training, consultancy services and the procurement of computer software and hardware, communications equipment, and refurbishing of building facilities.
- 2.12 The component is structured according to three subcomponents, one for each area of intervention. Through the first subcomponent, support will be provided for the implementation of a comprehensive institutional modernization plan for the GRA, focusing on the adoption of modern technologies and procedures in tax and customs administration, and for the drafting of the norms required to complete the legal framework. The second subcomponent of the program will finance investments and technical assistance to complement the deliverables of CIDA's GEMP-3 project for the modernization of the public expenditure management system. Finally, the third subcomponent will support activities to strengthen fiscal and fiduciary oversight mechanisms in accordance with the 2001 constitutional amendments.

a) Subcomponent 1: Tax policy and administration (US\$8.6 million)

- 2.13 The program will support the modernization of the GRA, focusing on the implementation of new operational procedures and modern IT systems, both in order to support collection of existing taxes and to provide the GRA with the technical pillars for the administration of the VAT, once it is introduced in 2006. Specifically, the activities under this subcomponent will seek to: (a) strengthen organization and management capacity to increase operational effectiveness; (b) enhance the capacity of the IRD to conduct routine tax administration operations; (c) improving the capacity of the customs administration to collect trade taxes with minimal interruption of trade flows; (d) strengthen enforcement capacity and, (e) enhance the information technology capabilities of the GRA and (f) improve policy, laws and regulations relating to taxes and customs to increase equity, reduce distortions, simplify procedures and facilitate enforcement. The program will build upon the work that is currently being performed by the GRA with the assistance of CARTAC. CARTAC is providing support to the GRA in the preparatory work for the implementation of the VAT, and in addressing critical short-term issues in the customs administration.
- 2.14 **Strengthening organization and management of the GRA.** The program will strengthen critical areas of the organization and management of the GRA, including strategic planning and management, as well as personnel management. **First**, the program will support the adoption of an organizational structure that minimizes duplication of functions between departments (IRD and CTA), avoids

overlaps in responsibilities among the units within each department, and improves interface and communications between departments and their units.

- 2.15 **Second**, in order to accompany the new GRA's autonomy to manage its human resources, the program will include priority activities for the establishment of a comprehensive system to govern recruitment, selection, performance evaluation, promotions, incentives, transfers and dismissals of GRA personnel.
- 2.16 **Third**, a plan of public information will be drawn up and put into operation. The plan will include public awareness campaigns to inform the population about the tax reforms, information on the taxpayer's rights and obligations as well as on the operations of the tax administration.
- 2.17 **Enhancing the capacity of the GRA to conduct routine processing of tax declarations and payments.** These activities would assist in increasing the efficiency and productivity of routine tax administration operations by supporting the updating and enhancement of systems for registrations of taxpayers, accounting of revenue collections and control of refunds and credits. A modern IT system for tax administration will be procured and installed, in order to support most of the tax administration functions. In particular, it is expected that the new system will deliver accurate information of returns and payments, will become a central tool to assist the planning and monitoring of the collection of arrears, and will support audit in selecting taxpayers.
- 2.18 In addition, under this subcomponent, the program will assist the GRA in the following activities: (a) implementation of a new and unique TIN, to be used for domestic tax administration and for the control of customs and trade operations; (b) implementation of a new system for the control of commercial invoices; and (c) introduction of a self-assessment system for taxes. The program will also support short term activities to address critical issues in the areas of: returns processing, revenue collection, filing system, current account, audit, compliance control, objections, license registry.
- 2.19 **Improving the effectiveness of the customs administration to manage customs operations and payments.** The program will include specific activities aimed at simplifying procedures and introducing international standards into customs operations. In particular, support will be provided for the improvement of customs operations, such as cargo, import, exports and custom transit operations, processing of customs declarations and payments, release of merchandise, monitoring and control of warehouses and sale of confiscated goods. Activities will include the review, definition of the new procedures and the automation of these key operations, in order to permit the reduction of time of merchandise clearance and the provision of information to plan the inspection and control tasks. For the automation, a new customs IT system will be procured and implemented. The program will also include support for short-term activities related to the review of specific customs procedures, the mechanism for tracking

containers and the operational improvement of the container control module and cashier module of the current information system.

- 2.20 **Strengthening the capacity of GRA in enforcement operations.** The activities will support the building up of the enforcement capacity of the GRA by strengthening management of external information, intelligence operations, risk analysis, audits, investigation and inspections, monitoring of filing of declarations and payments, control of invoices, recovery of tax arrears and legal and appellate functions. In addition, in order to strengthen the GRA's legal actions in the enforced collection process, and to enhance the regulatory capacity of the tax administration, support will be provided to the legal unit of the GRA.
- 2.21 **Enhancing the information technology capabilities of the GRA:** The implementation of the computer-based information systems in tax and customs administration requires the enhancement of the IT infrastructure of the GRA. In this regard, the program will support the modernization of the computer and telecommunications infrastructure, by providing the necessary equipment and software for databases and applications, and the strengthening of the managerial and technical capacity of the IT unit of the GRA. Other specific program activities will be directed to: (a) the implementation of a data warehouse to integrate all relevant trade operations and taxpayer information; (b) the update and standardization of the platform for the operating systems; (c) the adoption of policies and specific standards for information security and backup; (d) the development of computerized applications to automate the administrative processes; and (e) the implementation of a web portal with high levels of security, that will increase the range of the services provided by the administration.
- 2.22 **Improving policy and legal framework for tax and customs administration.** These would support the review of tax and customs laws and regulations. In particular, support will be provided to: (a) review all the laws and regulations of customs and draft amendments, when necessary, to assure their accordance with the international laws and agreements and to allow the GRA to fight against fraud and smuggling; (b) prepare the regulations for the Fiscal Enactment Act; and (c) prepare studies to assist GOG with the definition of the framework for the introduction of the VAT (base, rates, thresholds, areas to be strengthened, action plan and strategy for implementation).
- 2.23 **Training.** To complement the efforts to improve procedures and optimize systems, the program will include the design and execution of a comprehensive training program on policies, processes, rules and technology for implementing and handling new processes and systems, as well as general and human resource management. This training program will build upon an existing CDB training program worth US\$300,000, which is based upon the comprehensive training needs identified in a 2000 CIAT report. All training activities will be provided through the Training Unit of the GRA; specific activities to strengthen the capacity of this unit are included in the program.

- 2.24 Technical training activities will mainly focus on the following areas: (a) arrears collection procedures, late filer and non-filer procedures; (b) PAYE monitoring and Audit; (c) post assessing verification; (d) income and consumption tax auditing; (e) tax legislation; (f) investigative auditing and fraud examination; (g) VAT collection and auditing; (h) basic course on customs and trade administration; (i) customs valuation and classification of goods; (j) risk management and analysis in foreign trade operations; and (k) application of auditing tools for ex post audits and integrated audits; (l) computer use and operation; and (m) management of the information systems.
- 2.25 **Other investments.** The program will finance the provision of scanners and office equipment for the GRA. Support will be also provided to finance the remodeling of customs offices, as well as physical premises where the computer equipment will be installed. Remodeling will include appropriate wiring, air conditioning systems and conditions to assure the safety and security of the equipment.
- 2.26 **Application of program funds.** The funds will be used to finance: (a) consulting services to review and update operating processes, as well as to develop and adapt computer applications for the tax and customs administration; (b) consulting services for the preparation of the bidding documents for the procurement of the new IT systems for internal revenue collection and customs operations; (c) procurement of software (including licenses); (d) procurement of the new IT systems for internal revenue collection and customs operations; (e) the purchase of servers and licenses, and work stations (f) consulting services to formulate and implement IT security policies and standards; (g) equipment to support control of foreign trade; (h) rehabilitation of infrastructure; and (i) development of methodologies, design of training programs and delivery of the initial training sessions.

b) Subcomponent 2: Strengthening of public sector financial management (US\$2.1 million)

- 2.27 Activities under this subcomponent will be aimed at providing complementary support for the modernization of the public sector financial management systems. Following the enactment of the Fiscal Management and Accountability Act, the program will be focused on three key institutional factors: (a) issuance of the new set of regulations to implement the new law; (b) strengthening of the MOF to enable it to comply and lead the implementation of the new framework established by law; and (c) further expand the implementation of the IFMAS.
- 2.28 **First**, under this subcomponent, the program will finance the drafting of the regulations for implementation of the new Fiscal Management and Accountability Act. The regulations will cover: (a) handling, spending, and accounting for public money; (b) the provisions to ensure proper accountability for the use and management of public money, public property, and financial assets and liabilities of the State; (c) the new and electronic system-specific regulations associated with the introduction of IFMAS; and (d) the structure of budgetary appropriations.

- 2.29 **Second**, the program will seek to enhance the leading financial management capacity of the MOF, in order to ensure that it accords fully with the provision of the new Act and the introduction of new technologies and work processes. In particular, the program will support specific interventions for the improvement of the organizational and functional structure of the MOF, the strengthening of debt management capacity, and the creation of a macro fiscal projection unit. In this regard, program funds will be dedicated to finance the following activities:
- a. The preparation of a strategic institutional development plan, the sponsoring of workshops to discuss and decide upon an organizational structure, and the support for the phased implementation of the chosen organizational structure. The supply of equipment and the refurbishment of the office space.
 - b. The review and consolidation of all regulations regarding public debt management. The preparation of a standard manual and reporting format on debt recording, reporting and analysis. The provision of equipment and the consolidation of the modular training program on debt management, complementing the resources that are currently being provided by the European Union under its Poverty Reduction Budget Support Project.
 - c. Equipment and capacity building activities to undertake the economic modeling and forecasting required for a multiyear expenditure framework.
- 2.30 **Third**, the program will provide further assistance to the GOG for the expansion of the IFMAS. At the present, CIDA is providing assistance to Government in program budgeting and the implementation of the IFMAS through the GEMP-3 project. GEMP-3 contains crucial deliverables for the efficient modernization of financial management systems, and it will set the stage and establish a solid base for modernization. However, GEMP-3 falls short of comprehensively addressing all requirements and there are some areas that need further support.
- 2.31 The main deliverables of GEMP-3 include: (a) the implementation of a modern IFMAS, covering the business functions of funds and budget control, general ledger account, accounts payable and receivable, reporting, payroll and internet interfaces; (b) the full implementation of program budgeting, (c) the development of a modern comptrollership function; and (d) an extensive training program in the areas of treasury, budgeting, accounting, internal control and auditing.
- 2.32 Therefore, under this subcomponent, the program will finance the following additional activities:
- a. Expansion of IMFS institutional coverage to cover the whole central Government level, for which additional operative licenses and the acquisition of hardware will be needed.
 - b. The enhancement of system functionality through the implementation of additional software modules: budget formulation, asset management, automated bank reconciliation, and the revenue interface module.

- c. Acquisition of software to improve the reporting capabilities of the system, facilitating the compliance with the provisions of the new law. In addition to the required reporting to Parliament, the financial reports of the central government will be made available to the general public through the Web page of the MOF.

**c) Subcomponent 3: Enhancing fiscal and fiduciary oversight
(US\$1.2 million)**

- 2.33 This subcomponent will support enhancements to the operations of the ESC and PAC of the National Assembly, and the independent PPC. In accordance with the oversight functions mandated by the constitution, these entities should serve as checks and balances with respect to the executive branch, and as the formal medium for resolving budgetary and accountability issues.
- 2.34 **Parliamentary Oversight Committees:** Given the similar nature of the challenges facing the two parliamentary committees, identical activities will be supported. In addition, the committees' secretariat in performing its essential support functions to the PAC/ESC will be strengthened.
 - a. **Assistance for the modernization of the procedures and operational policies.** The program will support the establishment of transparent and equitable rules and regulations to govern proceedings of the parliamentary committees. The process will be built upon the review of the current oversight mandates, and will include the consideration of alternative arrangements for the modernization of the two bodies. The results of the World Bank study regarding the operations of the ESC will constitute a key input for these activities.
 - b. **Strengthening of human resources:** Strengthen the human resource endowment of the ESC, and PAC to improve the fulfillment of their oversight mandates/responsibilities through training, external advisory services and research assistance, and outreach support.
 - i. **Training:** For ESC/PAC and the staff of the committees secretariat to the conduct their legislative mandates and responsibilities (including seminars, workshops, visits to similar institutions overseas); the management/use of information systems; external/media relations; and coordination of other donor-financed training opportunities.
 - ii. **External advisory services funds:** For the use of short-term domestic and international advisory services (i.e. drafting legislation, obtaining legal opinion, specialized technical reports/analysis).
 - iii. **Research assistance:** Provision of two research assistants to support the parliamentary committees in an arrangement that is sustainable after program completion.

- iv. **Public outreach and external relations:** Support public outreach and external relation functions of the two parliamentary committees through development of websites and assistance with publications (editing, external printing, dissemination costs).
 - c. **Investments:** Support establishment of modern communications network and improve efficiency and functioning of the ESC/PAC and the committees' secretariat.
 - i. **Information and communications systems:** Purchase and installation of office applications (accounting, budgeting and agenda monitoring); software; basic internet infrastructure; local area network connection; computers; scanners; printers; faxes; telephones and photocopiers.
 - ii. **Archives:** Secure and enable searches of legislative information through the purchase and installation of scanning, storage and search functions for historic archives and new laws, and electronic transcripts of meetings proceedings and other documentation.
 - iii. **Physical:** Limited facilities refurbishment to safeguard archives, records, electronic equipment, and facilitate work of ESC and PAC (air-conditioning, electrical work, and basic building refurbishment).
- 2.35 **PPC:** Once the Constitutional PPC is established, the program will finance activities directed to provide procedural guidance, capacity building, basic investments in equipment and information systems, and support for public outreach. In addition, support will be provided to the PPC for the development of a training and dissemination plan designed to enhance awareness of procurement processes among suppliers, contractors and public officials, as mandated by the Constitution. The activities to assist the PPC will be draw in part upon the results of a UNDP Needs Assessment, which is currently being undertaken to evaluate the support needs of the wider Parliament and the Constitutional commissions.

C. Cost and financing

- 2.36 The total cost of the program is estimated at US\$29.5 million, as shown below. The Bank will finance up to US\$28 million of the costs with resources of the Fund for Special Operations (FSO). The counterpart funds equivalent to US\$1.5 million will be financed by the GOG using its own resources and contributions from other donors.

Table II-1 Cost and Financing (in US\$ million)				
Categories	IDB	Guyana	Total	Percent
1. Component 1: Policy-Based	15.0		15.0	51.0
1.1 First Tranche	5.0		5.0	
1.2 Second Tranche	5.0		5.0	
1.3 Third Tranche	5.0		5.0	
2. Component 2: Investment and Technical Support	12.7	1.3	14.0	47.3
2.1 Tax Administration	7.8	0.8	8.6	
2.2 Financial Management	1.9	0.2	2.1	
2.3 Audit and Fiduciary Oversight	1.1	0.1	1.2	
2.4 Project Management (PCU and PEU)	1.0	0.1	1.1	
2.5 Audits and Evaluation	0.3		0.3	
2.6 Contingencies	0.6	0.1	0.7	
3. Financial Costs	0.3	0.2	0.5	1.7
3.1 FIV	0.3		0.3	
3.2 Credit Fee		0.2	0.2	
TOTAL	28.0	1.5	29.5	100.0

D. Bank conditions and financing

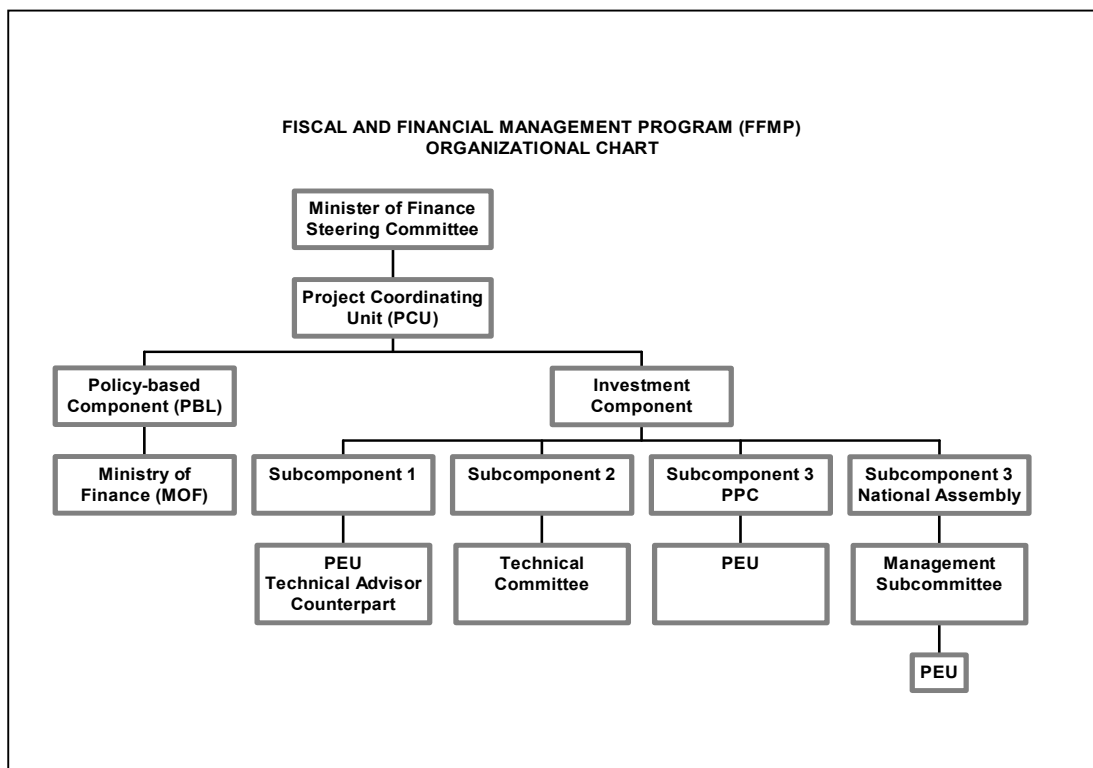
2.37 The Bank financing of US\$28 million will come from the Fund for Special Operations (FSO). The following table shows the terms and conditions of the loan:

Table II-2. Terms and conditions of the loan	
Source of funds:	Fund for Special Operations
Amount:	US\$28 million
Terms:	
Amortization:	40 years
Execution:	48 months
Disbursement:	24 and 48 months (PBL and Investment loans, respectively)
Interest rate:	1% for the first 10 years and 2% thereafter
Inspection and supervision:	1%
Credit fee:	0.5% on the undisbursed balance
Currency:	US\$ from the Single Currency Facility

III. PROGRAM EXECUTION

A. The borrower and executing agencies

- 3.1 The borrower and guarantor of the loan will be the Cooperative Republic of Guyana. The Ministry of Finance will have overall responsibility for the implementation of the Program. A Steering Committee (SC) and Project Coordination Unit (PCU) will be established to carry out policy and administrative guidance to the program activities. This governing structure will be incorporated into the MOF institutional framework, and will last throughout the life of the program. In addition, three small Project Executing Units (PEU) within the GRA, the Parliament and the PPC will be created in order to assist in the execution of subcomponents 1 and 3 of the investment component.



B. Program administration and coordination

- 3.2 The SC will be responsible for overall project guidance and oversight, as well as for the approval and supervision of annual operating plans and budgets for subcomponents 1 and 2. The SC will review the progress reports on the execution of the policy and investment components, and will interface with other institutional actors in order to facilitate the orderly implementation of the program. The Minister of Finance or his deputy will chair the Committee, and its membership will include the Finance Secretary, the Head of the Policy Management Unit of the Presidential Secretariat, the Chairman of the GRA Board, and the Chairman of the PPC. The

coordinator of the PCU will attend the meeting of the SC, as a secretary. The SC will meet at least twice a year.

- 3.3 The PCU will be responsible to ensure effective coordination and execution of the program activities. Regarding the Policy Component, the PCU will be responsible for: (a) monitoring the compliance of conditionalities and performance benchmarks set out in the policy and verification matrix; and (b) reporting on the compliance progress to the MOF, SC, and the IDB.
- 3.4 In relation to the investment component, the PCU will be responsible for: (a) coordinating the program execution; (b) revising and presenting the annual operating plans (AOP) of all subcomponents, and the semiannual, midterm and final reports to the SC for approval, in addition to other reports requested by the Bank during the program; (c) monitoring of execution performance, and collecting the information needed for the indicators specified in the logical framework; (d) conducting the procurement and processing the contracts required for the implementation of subcomponents 1 and 2; (e) providing technical advice to the agencies and execution units therein; (f) preparing and presenting disbursements requests and justification of the use of funds to the Bank's satisfaction, and the semiannual reports on the use of the revolving fund; (g) preparing the semiannual progress reports on execution performances for submission to the MOF, the SC, and the Bank; (h) maintaining the financial and accounting records related to the use of financed resources, demonstrating at any time that the funds are used for the purpose intended by the loan; (i) opening separate commercial bank accounts for the Bank's financing and the counterpart contribution; (j) keeping the adequate documentation to support the disbursements received; this information shall be made available for review by Bank personnel and/or external auditors; and (k) preparing and presenting the financial statements of the program to the Bank, duly certified by eligible external auditors.
- 3.5 The PCU will be headed by a Coordinator, who will be a highly qualified professional that will be appointed by the Minister of Finance in consultation with the Bank. The Ministry of Finance will transfer to the Coordinator the responsibility to act as liaison with the Bank and to ensure the coordination and consistency of all project activities. The Coordinator will report to the Minister of Finance on day-to-day activities. The PCU will be staffed with a program management officer, a procurement officer, a finance/accounting officer, an accounts/administration officer and a secretary/administrative assistant. The coordinator will appoint these personnel. The coordinator and the personnel of the PCU will be contracted as consultants, and will be selected and appointed following the standard procedures of the Bank for contracting individual consultants.

C. Execution of the investment component

- 3.6 For the implementation of the investment component, three separate small PEU will be established. One for the execution of the subcomponent 1: the GRA; and

- the other two for the implementation of the sub-component 3: Audit and Fiduciary Oversight. These PEU will carry out day-to-day activities of each sub-component.
- 3.7 The program will be executed following the Annual Operating Plans (AOP) for each subcomponent, which will be based on the plans of actions prepared for the activities, adjusted to the real pace of execution. The AOP will contain: (a) the activities to be carried out and the goals to be achieved each year; (b) the investments and expenditures to be made by source of financing; and (c) the schedule for execution and the units/employees responsible for compliance of the goals.
- 3.8 For subcomponents 1 and 3, the technical work related to planning, preparation of terms of reference or specifications, quality control of consultants' work and monitoring of the progress on implementation, will be carried out by the respective PEU. The PCU will provide the technical support work for Subcomponent 2. The administrative support work related to the preparation of bidding documents, contracting, purchasing and payments for subcomponents 1 and 2 would be carried out by the PCU. Considering that subcomponent 3 involves the National Assembly and the PPC, that are independent branches of Government, the corresponding PEU will carry out the administrative support work for implementing the program activities.
- 3.9 Further execution arrangements are summarized in the paragraphs below and will be detailed in the Program's Operating Manual (POM). The POM will cover: (a) the funds transfer process from the PCU to the PEUs; (b) the preparation of project financial reports/statements; (c) the eligibility criteria for selection of activities and approval of expenses; (d) the amounts and limits with respect to procurements of goods, works, and services; (e) the obligations of the PEUs to maintain adequate systems of internal control; and (f) the obligations of the PEUs to maintain adequate and proper accounting records and documentation to support eligible project expenses. A draft POM is kept in the technical files.
- 3.10 **Subcomponent 1:** The PEU at the GRA will be headed by a chief technical advisor (an international consultant with proven track record in reforming and strengthening revenue authority structures). He/she will report directly to the Commissioner General of the GRA and will be supported by a counterpart officer appointed by the GRA. The PEU functions will be to: (a) liaise with the PCU in respect of implementation of the GRA component of the program; (b) assist the Working Groups of the GRA in the execution of their respective work programs; (c) coordinate through the PEU all donor funding to the GRA and ensure their effective integration in supporting the reform efforts of the GRA; (d) review the work program of the GRA and recommend changes to the CG where necessary; (e) obtain approval from the PCU for the disbursement of funds, inclusive of all payments to consultants and in relation to all procurement; and (f) prepare and submit progress reports on program execution.
- 3.11 Technical execution of the different activities will be borne by the Working Groups of the GRA and the PEU, who will be assisted by the consultants financed under the program. These working teams are functioning for the last six months,

and are organized according to the different areas of specialization of the tax administration; the head of unit of the corresponding area leads the team. Table III-1 shows the units that will lead the execution. Currently these groups are conducting technical activities to strengthen the operation in the short term.

Table III-1: GRA: Units responsible for program execution

Activity/ Area of Intervention	Unit Responsible
<ul style="list-style-type: none"> ▪ Organization and management ▪ Human Resource Management ▪ Public Information and Awareness Camp. ▪ Domestic tax collection ▪ Customs operations and payments ▪ Information Technology ▪ Auditing and enforcement collection ▪ Training ▪ Policy and Legal framework 	<ul style="list-style-type: none"> ▪ Office of the Commissioner General ▪ Human Resource Management Division ▪ Office of the Commissioner General ▪ Internal Revenue Department ▪ Customs & Trade Administrative Depart. ▪ Central IT Unit ▪ Field Audit Unit ▪ Training Unit, Human Resource Div. ▪ Legal Division

- 3.12 An international specialized agency or consulting firm will be hired by the GRA to provide specialized technical support following the Bank's procurement procedures. The consultants assigned by the specialized agency or consulting firm will provide technical and managerial advice to the GRA; the performance of on job training activities will be included in the consultant's terms of reference. The draft-negotiated contract with the selected firm or agency and the CV's of the consultants to be assigned to the GRA will be submitted for the Bank's non-objection.
- 3.13 The computer and software requirements for the GRA will be determined after a detailed analysis is made of the study completed in November 2003 by the Inter-American Center of Tax Administration (CIAT), as well as of the definitions of the basic functionality of the IT system to support the customs operations. This analysis will take into account the current computing architecture, applications and system development schedule. Given the limited technical human resources of the country, pre-packaged software solutions for the IT systems for core customs and tax administration functionalities will be procured (off the shelf systems). To this end, selection criteria of the software products currently on the market will include: the functionality of the software products, the GRA's capacity to successfully develop, implement and maintain the customized products. A proven track record of the software should be also a major element of decision; the selected software should be operating successfully in more than one country. In general, computer software and hardware equipment must be interoperable with the computer environment of the IRD and CTA. The core computer hardware and technology infrastructure needed for deployment of the IT systems will be procured once the GRA selects the software solutions. Loan funds have been budgeted to support the GRA in the preparation of technical specifications for the bidding documents to procure the IT systems and the computer hardware.
- 3.14 **Subcomponent 2:** Since the subcomponent on Financial Management is extensive in its scope of coverage, the MOF will establish a Technical Committee (TC) to oversee its execution. The TC will be headed by the Finance Secretary and will include the Director of the Office of the Budget and the Accountant General. The TC will meet on a monthly basis to review the work progress and

- the performance report on implementation. The PCU will assist the MOF for the execution of the activities programmed under this subcomponent. In particular, the activities related to: (a) strengthening of fiscal projection capacity, (b) building sustainable debt management capacity, and (c) promoting organizational restructuring of the Ministry (as reflected in the MOF work plan), will be executed by the corresponding MOF's line departments with direct technical and administrative assistance of the PCU. In respect of these activities the PCU will report directly to the TC.
- 3.15 The technical execution of the activities directed at expanding the functionality of the IFMAS and the existing management of GEMP-3 will undertake supporting the work plan of GEMP-3. GEMP-3 is currently assisting the GOG in improving budget planning and administration. Thus, for these activities the PCU will only provide administrative support, including the necessary assistance for the procurement of goods and services with program funds.
- 3.16 **Subcomponent 3:** For the implementation of the Audit and Fiduciary subcomponent relating to the PAC and the ESC, a small PEU will be established at the office of the Clerk of the National Assembly. The Deputy Clerk of the National Assembly will establish the PEU and will appoint its staff. The PEU will carry out the day-to-day activities envisaged under the program, including the preparation of documents for the procurement of goods and services, the necessary inputs for the preparation of all the reports, and the planning for the execution of activities.
- 3.17 The Speaker of the National Assembly will establish a Management Sub-Committee (MSC) to exercise the general direction and the oversight functions over the program activities in Parliament. The MSC will be comprised of the Speaker, as Chairman, and members of the MSC shall be the Chairmen and Alternates of the PAC and the ESC; the Clerk of the National Assembly will be also a member. The functions of the MSC will be to: (a) review and approve the annual work plan of the PEU; and (b) consider periodic performance reports on implementation.
- 3.18 The PEU will: (a) plan program activities (in coordination with committee members) on an annualized basis for the approval of the MSC and transmit its approved work plan to the PCU; (b) execute program activities accordingly; (c) liaise with the PCU on the execution of the annual work plan; (d) submit progress report to the MCS and the PCU on performance results; and (e) coordinate the investment activities with other donors.
- 3.19 A Memorandum of Understanding (MOU) that will be agreed with the PCU will establish the disbursement mechanism of authorized funds against the AOP approved by the MSC. The MOU shall be agreed and signed prior to the commencement of implementation of the Audit and Fiduciary subcomponent of the Program in the National Assembly. Thereafter, transfer of funds to the PEU from the PCU shall be effected through a revolving fund either in the form of advances to execute specific activities in the work plan or reimbursements against certified invoices or outputs.

- 3.20 Regarding the execution of the activities envisaged for the PPC under the Audit and Fiduciary Oversight component, the activities would be undertaken by a small PEU. In consultations with the Chairman of the PPC and its Chief Executive (once they are appointed) the PCU shall assist the PEU to prepare the first annual work program for the PCC. The PEU will operate on a similar basis to that of the National Assembly.

D. Disbursement and disbursement schedule

- 3.21 For the policy-based component, disbursement of the first tranche is expected to occur immediately after the loan is declared eligible. It should be noted that the actions corresponding to the first tranche are well advanced. As originally expected, in December 2003 the following laws were enacted: the amendment of the GRA Act, and the Fiscal Management and Accountability Act. In addition, the new Audit law was enacted in late April 2004. The only condition pending for the first tranche is related to the approval of the Policies and Procedures Manual for the OAG; a draft version of the manual is prepared and has been sent to the PAC for its consideration. For the second and third tranches, disbursements are programmed for the first half of 2005 and 2006, respectively. The GOG will be required to submit a report to the Bank which demonstrates that the conditions precedent to each tranche have been fulfilled 45 days prior to the planned disbursement date.
- 3.22 For the investment and technical support component, the disbursements will be made over a 48-month period. The schedule of disbursements for the Investment Component of the program disaggregated by sources of financing is as follows:

Table III-1. Investment Component: Projected Annual Disbursements (In millions of US\$)					
Source	Year 1	Year 2	Year 3	Year 4	Total
IDB (FSO)	2.95	4.30	3.54	1.91	12.70
GOG	0.32	0.50	0.33	0.20	1.35
Total	3.27	4.80	3.87	2.11	14.05
% Year	23.3	34.1	27.5	15.10	100.0

- 3.23 **Relationship between the execution of the policy-based and investment components:** Given the inter-related nature of the components, approval of the laws contemplated in the first tranche of the policy-based component is required for the first disbursement of the investment component. The enactment of these laws will set up the core legal framework for the reform that will allow initiating the implementation of the investment component. No further conditions associated with the compliance of the sector reform component will apply to the disbursement of the investment component.
- 3.24 Since the reform initiatives and their expected results depend on the capacity of the public institutions to adapt their systems and processes to the reformed policies, the execution of the activities of the investment component will assist the GOG in accomplishing the intermediate and final implementation benchmarks

included in the second and third tranches of the policy matrix. Some key outputs of the investment activities will contribute directly to evidence the compliance of the conditionality, as indicators of the institutional progress required for a sustainable reform implementation. Other outputs of this component will provide the technical bases and mechanisms to make the governmental actions and policy decisions more effective in order to comply with the program conditionality.

- 3.25 Thus, the implementation of key planned activities of the investment component during the first two years of the program, are a necessary condition for complying with the second and third tranche conditionality of the policy-based loan. The expected outputs together with the political will to complement the legal framework and to operate the institutional oversight mechanisms will ensure an adequate implementation of the reform program and the achievement of its expected results.

E. Special contractual clauses

- 3.26 **Policy-based component:** Disbursements will be made on three tranches of US\$5 million each, and will be subject to the fulfillment of the conditions precedent for each tranche shown in the policy matrix (Annex I) of this document.
- 3.27 **Investment component:** In addition to the conditions established in the general conditions of the loan agreement, prior to the first disbursement, the Borrower must submit to the Bank: (a) evidence that the PCU has been established, (b) evidence that the SC has been established to carry out policy and administrative guidance, and (c) evidence that the Program Operations Manual (POM) has been enacted in accordance with the terms previously agreed upon with the Bank.
- 3.28 In addition, prior to the first disbursement to support the activities of each subcomponent, the borrower must submit to the Bank: (a) evidence that the PEU has been established: and (b) the AOP for the first year.
- 3.29 Prior to disbursement of the financing for subcomponent 3 the borrower must comply with the following conditions: (a) for the activities to be carried out by the National Assembly, the PEU and the National Assembly have signed Memorandum of Understanding for that purpose, and (b) for the activities to be carried out by the PPC, the PEU and the PPC have signed Memorandum of Agreement for that purpose.
- 3.30 Notwithstanding the above paragraphs, but after the conditions prior to the first disbursement stipulated in Article 4.01 of the General Conditions of the Loan Contract signed between the GOG and the Bank have been complied with, the Ministry of Finance will be allowed to request disbursements up to the equivalent of US\$300,000 of the loan amount. These resources will be geared towards the establishment of the PCU and the fulfillment of the special conditions prior to the first disbursement.

F. Financial management

- 3.31 To provide the Borrower with the funds needed to finance the various activities of the investment component to be carried out with the resources of the Bank it will be necessary to establish a revolving fund of up to 5% of its amount. This arrangement will allow the Borrower execution of the component in a timely fashion.
- 3.32 The Revolving Fund resources will be held by the MOF in an account opened for the Program. Funds from this account will be transferred as needed for execution, to three separate working accounts: one for subcomponents 1 and 2 under the PCU/MOF, and the other two for subcomponent 3, one under the National Assembly, and the other under the PPC. In addition, separate accounts will be opened, as needed, to deposit the local counterpart resources. Accounting will be done for subcomponent 3 by the corresponding PEU, while for subcomponents 1 and 2 will be done by the PCU. The PCU will also consolidate the program's accounting, ensure that the monthly banks reconciliations are performed, and prepare the biannual Revolving Fund Statement and the Program's end of year financials. Revolving fund replenishments requests will be prepared by the PCU.

G. Procurement of goods and services

- 3.33 Procurement of goods and consulting services will be done according to Bank standard procedures. The procurement of goods equal to or exceeding the amount equivalent to US\$250,000 will be made through international bidding, open to all IDB member countries. For the hiring of consulting firms, with contracts in excess of US\$200,000, it will be required that the MOF make a public announcement to all IDB member countries.
- 3.34 Since the MOF has, with CIDA assistance and through GEMP3, competitively selected the E-Free Balance software as the basis for the Government IFMAS, the GOG has requested the Bank for an exception to its competitive rules to apply directly loan funds to extend the application of the E-Free Balance software, and obtain directly from the firm provider of the software the modules for budget formulation, procurement, asset management, automated bank reconciliation, the revenue interface, and the software to improve the reporting capabilities of the system. Such a procurement operation complies with all the criteria established in the Procurement Manual (GS-311) for making an exception to the international competitive bidding procedure established in Bank policies.

H. Program supervision and monitoring

- 3.35 The policy reform component of the program will be monitored by RE3/SC3, while the Bank's country office in Guyana (COF/CGY), with technical support from the project team, will be responsible for supervising the performance of the Investment component. COF/CGY will perform its task based on the information contained in the AOP, the semiannual progress reports and the annual financial reports received from the PCU. All controls will be done on an *ex ante* basis.
- 3.36 The Borrower and the Bank will hold semiannual meetings in order to review the progress achieved in implementing the Program and on the fulfillment of the

- conditions for the disbursement of the respective tranches and investment subcomponents. For these meetings, the Borrower will furnish, prior to each meeting, information and documentation requested by the Bank regarding the advancement of the program and the fulfillment of the contractual obligations.
- 3.37 The MOF, through the PCU, will begin presenting semiannual reports to the Bank after the loan is declared eligible. The reports will describe progress in the AOP and propose actions to ensure satisfactory execution. The reports for the second half of each year will be presented to the Bank together with the AOP for the following year.
- 3.38 Starting at the end of the first year of the project, annual project monitoring meetings will be held by the Bank, the PCU and the PEU to agree on the AOP for the following year and examine the results of the past year's work. The meetings will also review progress in compliance with the indicators in the program's logical framework (Annex II).
- 3.39 A midterm and a final evaluation financed with loan proceeds will also be conducted for project supervision and monitoring, based on the indicators and goals established in the logical framework. The midterm evaluation will take place two years after program start up. The PCU will compile the corresponding information and generate the indicators regularly. Joint meetings will be held by the PCU and the Bank to study the results of these evaluations. The final evaluation will focus on: (a) verifying the degree of compliance with the indicators for the program and the different components; (b) taking stock of the successes and shortcomings of program design and execution and its effectiveness in working toward the country's development objectives; and (c) recommending corrective or monitoring measures for future programs of this kind.

I. External auditing

- 3.40 The PCU will prepare and submit to the Bank within 120 days after the closing date of each fiscal year; and also within 120 days after the date of the last disbursement of the financing, the financial statements of the investment component audited by a firm of independent auditors acceptable by the Bank and based on the terms of reference previously approved by the Bank. The private auditing firm will be selected and contracted in accordance with the Bank's bidding procedures for auditing firms, and will be paid using loan funds.

J. Final assesment

- 3.41 The PCU will collect, store and retain all necessary information, indicators and parameters, including the information compiled for the annual follow-up meetings and the midterm and final evaluations, to help: (a) the Bank to prepare the PCR; and (b) the Bank's Oversight and Evaluation Office (OVE), if so wishes, to evaluate the impact of this operation in accordance to GN-2254-5.

K. Policy letter

- 3.42 The Bank has agreed with the GOG on the macroeconomic and sector policies outlined in the policy letter (Annex V) sent by the Government to the Bank. This letter describes the main components of the government's strategy and policies that are being implemented in the area of fiscal and financial management and its commitment to implementing the reforms and activities agreed upon with the Bank.

IV. VIABILITY , BENEFITS AND RISKS

A. Institutional viability

- 4.1 The program is directly supporting the reforms stated in the country's Constitutional Amendment and PRS. While the policy reform component is compatible with the fundamental legal mandates, the interventions under the investment and technical support component have been designed strictly in accordance to the mission and functional jurisdiction of the executing agencies that are at the same time the entities that will lead the implementation of the reform. Thus, all activities to be undertaken in the operation are consistent with the tasks that the different public entities are required to carry out.
- 4.2 In addition, the content and scope of project activities have been designed through participation and active consultation with the officials that will lead or be involved in executing the components. The discussions held with the authorities in relation to the draft legislation for Financial Management, Public Audit and Tax Administration, allowed for a better understanding of the reform and for a more comprehensive design of the investment activities of the program. Consultation during the project preparation process was extended to the legislative branch of government, the opposition party, the private sector and the representation of the donor community in Guyana. The project, thus, provides the necessary sense of ownership to guarantee a good level of acceptance and implementation. Furthermore, based on the results of the consultations, it is possible to affirm that the program focuses on fiscal and expenditure management issues that could be realistically resolved in the medium term, given the current political and institutional set ups.
- 4.3 During the process of preparation, the project team evaluated the capacity of the different entities to administer the program and to undertake the technical execution of the activities of the investment component. The team concluded that the program implementation mechanism for the investment activities should take into account the following considerations: first, the relative weakness of the current administrative structures of the executing entities; and second, –except the case of the MOF–, the lack of experience of the entities in handling technical support programs and managing loan funds. Based on these considerations, the following safeguards have been taken into the design of the executing mechanism: (a) a strong central (PCU) that will support the PEU during execution; (b) work mechanisms under which teams will be made up, as appropriate, of legislators, technical staff and officials of the bodies concerned, together with external consultants, with supervision by the PCU; and (c) a flexible modality with continuous monitoring, based on annual operational plans to be drawn up by the PEU and reviewed by the PCU and the Bank's team.

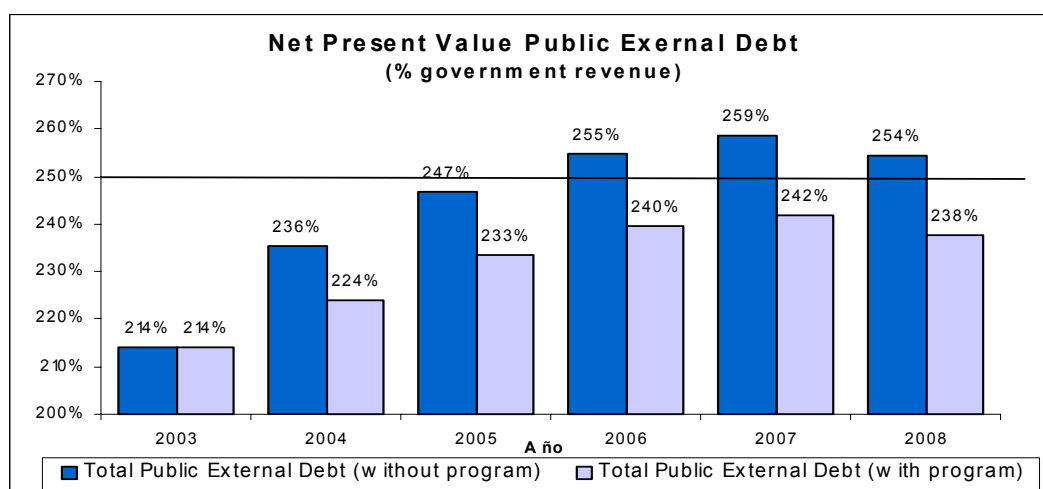
B. Socioeconomic viability

- 4.4 The proposed measures will help make fiscal policy a more effective tool for the promotion of sustainable and equitable growth in Guyana. To this end, the first component of the program is aimed at promoting macroeconomic stability through sustainable fiscal policy; minimizing tax policy distortions in support of an optimal allocation of resources; and improving equity in tax burden distribution. Through second and third components, the program aims to contribute to a more effective and efficient use of public funds.
- 4.5 With respect to the sustainability of fiscal policy, the program builds upon the achievements of the two HIPC initiatives, which have substantially reduced the burden of Guyana's public debt. The ratio of external debt to central government revenues fell from 470% in 1996 to 215% at the E-HIPC completion point in December 2003. However, substantial new public spending needs were identified in the PRSP as necessary to support poverty reduction and a return to higher growth. Unless steps are taken to increase revenue collections in order to finance these spending commitments, the resulting upward trend in indebtedness could endanger the 250% debt-revenue threshold established under E-HIPC.
- 4.6 The first area of intervention of the program would therefore support the maintenance of sustainable public debt levels through the strengthening of revenue collections (see Graph 1)¹⁰. Based upon the tax reforms, which took place in September 2003, the IMF projects an increase in tax collections of just under 2% of GDP over the next four years. This is a conservative projection; however, as it does not take into account the additional revenue, which is likely to be generated through reductions in tax avoidance (through the elimination of tax holidays and exemptions¹¹) and in tax evasion (through strengthening of the GRA¹²).

¹⁰ Projected increases in social spending under the Poverty Reduction Strategy have been incorporated in the debt sustainability scenarios.

¹¹ According to official data from GRA, in 2002 exemptions given to certain imported products cost the government in excess of US\$75 million (10.5% of GDP).

¹² According to an IMF study, tax evasion in Guyana represented over 10% of GDP in 2000.



Source: BID based on the “Completion Point Document under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, IMF, November 26 2003”. **Note:** Considering estimations after bilateral debt relief beyond HIPC assistance.

- 4.7 In relation to the objective of reducing the distortionary impact of tax policy, the elimination of a large number of tax exemptions, as well as the widening of the consumption tax base to include services, will help to reduce distortions in relative prices, thus supporting improvements in the allocation of productive resources. These reforms will, in turn, lay the foundation for the introduction over the medium term of a broad-based VAT, with a smaller—and therefore less distortionary—spread of rates than the existing consumption tax. (Introduction of the VAT is also expected to generate higher revenue collections—*ceteris paribus*—because it requires a more comprehensive recording system and will be more difficult to evade than the consumption tax). The introduction of a clear legal framework for the award of tax concessions will also reduce the costs to taxpayers of having to justify their entitlement to these exemptions.
- 4.8 Finally, the objective under the first component of improving the horizontal equity of the tax system will be enhanced under the program through reductions in tax avoidance and tax evasion, both of which serve to increase the burden upon those taxpayers—both corporate and individual—who do fall into the net. While generous spending plans under the country’s PRS preclude any reduction in marginal tax rates in the short-term, improved revenues as a result of this program could support rate reductions in the medium term; this would be particularly desirable in the case of the 45% corporate tax rate for commercial enterprises. Improved revenues could also support greater vertical equity in Guyana’s tax system in the medium term, through further increases in the personal income tax threshold (after the increase which took place in 2003).
- 4.9 With respect to the second and third areas of intervention of the program, improvements in budget preparation and in the financial management system will contribute to the more efficient use of public resources. **First**, both elements constitute valuable planning and decision-making instruments. **Second**, the information generated will increase the transparency of government policies and programs, making it easier to monitor and evaluate them and to identify necessary

adjustments¹³ (Islam, 2003; Durevall, 2001). In addition, the impact of the greater availability of information regarding financial management and program efficiency will be further enhanced by the strengthening of the four main oversight agencies for the financial management system—the Auditor General, the parliamentary PAC and ESC and the PPC. Strengthened oversight by these bodies will encourage improved decision-making and integrity in financial management.

C. Environmental and social impact and mitigation measures

- 4.10 Given the nature of the activities to be financed, no direct environmental impact is anticipated. The Project Concept Document was reviewed by CESI at its meeting of October 3, 2003.
- 4.11 This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

D. Benefits

- 4.12 The proposed operation will assist the Government in the implementation of reform measures that should result in a substantial strengthening of the operations of the Central Government. This will facilitate the efforts to meet the fiscal policy objectives and targets of the PRS.
- 4.13 **First**, the program will contribute to raising revenue levels through increasing the efficiency of the tax administration, and reducing tax system distortions and promoting horizontal equity. Tax collection is expected to increase by 1.3% of GDP between 2003 and 2006. The resulting improved revenue outlook would permit the authorities to undertake the adoption of the VAT in the medium term, while protecting revenues from future trade liberalization initiatives. At the same time, improvements in the tax administration would benefit taxpayers, traders, brokers and clearing agents by simplifying tax and customs procedures, and thus reducing tax compliance costs.
- 4.14 **Second**, the reform in the area of public financial management will permit the Government to count with improved management practices that will reduce discretion and increase transparency in the management of public funds. Improvements in public expenditure management would enable the government to allocate public funds to priority areas; maintaining macroeconomic stability and enhancing the cost effectiveness of its operations. The increased information availability to civil society would help strengthen evaluations and improve accountability in the public sector. Holding the executive accountable is fundamental if fiscal policy and expenditure management are to be sound.

¹³ Lack of transparency is the main constraint to monitoring in “principal-agent” models.

- 4.15 **Third**, the support that will be provided to operationalize the constitutional reforms in the areas of public audit and financial and fiduciary oversight will strengthen the role of parliament in economic policy, in consensus building and in overseeing policy implementation.
- 4.16 Finally, the program promotes greater transparency and accountability on fiscal matters, including several measures designed to facilitate the public to access the information on fiscal matters. This in turn should lead to reform and improved performance of the public sector institutions involved, since information when it is made broadly available, can be an important catalyst for change.

C. Risks

- 4.17 The risks identified are shown in the logical framework under the column of assumptions. Among them are those risks related to the policy environment and those that could affect institutional effectiveness. In the first case, the implementation of a number of very visible reforms supported by this program require a high level of political commitment on the part of the Guyanese authorities and the political parties, in order for the reforms to yield their full potential benefits in the medium- to long-term. Three main sources of political risk are apparent:
- a. The planned tax reforms are likely to imply costs for some segments of the population, both in terms of higher compliance costs and a higher tax burden. In order to minimize the risk of public opposition, public awareness campaigns aimed at informing the population about the reasons for the planned reforms will be supported, while new tax compliance procedures will be streamlined and simplified to the extent possible.
 - b. New tax administration and financial management systems will constitute important tools for the efficient collection and management of public resources. In order for them to function effectively, however, full commitment will be needed on the part of Government authorities to enhance transparency and minimize the role of discretion in public finances. The recent decision by the Government to amend legislation to eliminate discretionary powers of taxation represents an important step in this direction, as will the approval of the new Audit Law (giving autonomy to the Auditor General) and autonomy for the GRA in management of its human resources.
 - c. The activities supported by the fiduciary oversight subcomponent of the program are potentially vulnerable to fragile relations between the ruling and opposition parties. To partially mitigate this risk, during the preparation of the program direct consultations with political leaders of main parties were undertaken in order to verify their commitment to the reform. However, it is necessary to note that the consensus-driven process involved in the appointment of members of the PPC may be a difficult one, since the confirmation of the nomination requires a 2/3 majority of Parliament. It is worth mentioning that if the political differences between the major political

parties continue, it would be very difficult to obtain the required majority to establish the PPC. In addition, the effectiveness of the PAC and ESC would also be adversely affected if current political differences are not resolved expeditiously. .

- 4.18 In relation to institutional effectiveness, it is necessary to note that the institutional environment for implementation of the reforms envisioned in the program is a challenging one. As a result of one of the highest rates of emigration in the hemisphere, the human resource base and institutional capacity in Guyana has been severely eroded in recent decades. The shortfall of skills affects both private and public sectors, but its greatest impact is upon the higher skilled groups of public employees, who receive low salaries. This is reflected in a lack of adequate human resources, frequent staff turnover, and weak management systems in counterpart public sector institutions. A recent crime wave has accelerated the trend, and has also made it more difficult to recruit overseas personnel to work on Bank-funded operations.
- 4.19 In response to these problems, the emphasis of the proposed program is upon capacity building in the four main institutions responsible for implementation of the legislative reforms. Intensive training and improvements in the working environment should help to improve the quality of human resources in these institutions, while in the case of the GRA and the OAG, autonomy in the management of human resources will also help to minimize the problem of staff turnover.

GUYANA: Fiscal and Financial Management Program (GY-0053)

Policy Matrix

Objective	Previous Actions taken by the Borrower	First Tranche	Second Tranche	Third Tranche
Macroeconomic Framework				
Macroeconomic Stability	1-a) Agreement with the IMF under the Poverty Reduction and Growth Facility on September 2002.	1-b) The macroeconomic framework of the Borrower is consistent with the objectives of the program	1-c) The macroeconomic framework of the Borrower is consistent with the objectives of the program	1-d) The macroeconomic framework of the Borrower is consistent with the objectives of the program
Tax Policy and Tax Administration				
2-a) Improve the efficiency, revenue productivity and equity of the tax system, through the adoption of a comprehensive tax reform and the strengthening of the tax administration	<p>2-b) Law to tax self-employed professionals enacted on August 23, 2003.</p> <p>2-c) Law to introduce tax on services enacted on August 23, 2003.</p> <p>2-d) Law to limit tax holidays enacted on August 23, 2003 (compatible with CARICOM harmonization of Fiscal Incentive Framework).</p> <p>2-e) Law to limit discretionary tax exemptions to exceptional humanitarian cases passed on August 23, 2003 (amendments to the Income Tax act, Custom Act, and Financial Administration Act).</p>	2-g) An amendment to the GRA Act to allow for full autonomy in the management of its human resources has been enacted.	<p>2-h) Legal: A new legal framework consistent with the modernization of customs operations is established.</p> <p>2-i) The regulations for the implementation of presumptive income tax on self employed are issued¹</p> <p>2-j) Tax exemptions: (a) A modern system for controlling and recording tax exemptions has been established. (b) the tax exemptions that were granted during the previous fiscal year have been published.</p> <p>2-k) GRA Systems: (a) A new and unique taxpayer identification number (TIN) has been implemented; (b) A new system of commercial invoice controls has been implemented; (c) GRA's information systems for customs and domestic tax administration have been procured and their customization and implementation have been initiated.</p>	<p>2-m) Tax Reform: (a) The consumption tax on services and the presumptive tax on self employed are being collected according to the tax reform laws; (b) the regime for tax exemptions and tax holidays adopted in 2003 is maintained, (c) the exemptions that were granted during the last fiscal year have been published; and (d) an estimate of the tax expenditures is used for preparation of the budget of the then-current fiscal year;</p> <p>2-n) GRA Systems: (a) a computerized information system has been implemented and in full operation to support the customs control performed by the CTA; (b) a modern tax administration IT system for the Internal Revenue Department has been implemented and in full operation</p>

¹ A group of self-employed professionals has recently challenged the constitutionality of the law introducing this tax. The High Court is currently considering this case. In the event that relevant provisions of the tax law amendment are struck down by the High Court, the Borrower and the Bank will agree on the appropriate alternative.

Objective	Previous Actions taken by the Borrower	First Tranche	Second Tranche	Third Tranche
Financial Management				
3-a) Improve the financial management capacity of the public sector.	3-b) Draft of the new Law of Financial Management.	3-c) The new Fiscal Management and Accountability Act has been enacted.	<p>3-d) Legal: The regulations for the implementation of the new Fiscal Management and Accountability Act have been issued.</p> <p>3-e) The Integrated Financial Management System (IFMAS) is in operation in the Ministry of Finance for the last six months, and it has been implemented in at least three (3) other ministries.</p> <p>3-f) Procedures: (a) New procedures (for treasury and budget), budget classification and plan of accounts have been issued. (b) new procedures for project selection and prioritization have been defined and approved by the borrower; (c) a single system of classification of accounts to integrate the current and capital budget has been adopted.</p>	<p>3-g) (i) The budget of the present fiscal year has been formulated in accordance to the provisions of the new Fiscal Management and Accountability Act (b) new procedures for project selection and prioritization have been implemented;</p> <p>3-h) Central Government IFMAS in operation in all ministries. At least three enhanced functions of the IFMAS have been incorporated.</p> <p>3-i) Information: (a) Central Government financial statements produced by the IFMAS are auditable and meet applicable international accounting standards. (b) The central government has fully complied with the obligations to report and publish of information as mandated by the new Fiscal Management and Accountability Act.</p>
Public Audit and Fiduciary Oversight				
4-a) Improve oversight of public financial management and promote greater independence of the Office of the Auditor General.	4-b) Draft of the new Audit Law.	<p>4-c) The new Audit Law in accordance with the 2001 constitutional amendment has been enacted.</p> <p>4-d) The rules, policies and procedures manual for the Office of the Auditor General (OAG) has been approved.</p>	<p>4-e) New rules, procedures and operational policies needed to enable the Economic Services Committee and Public Accounts Committee of the Parliament to perform their oversight role have been established.</p> <p>4-f) The members of the Public Procurement Commission have been appointed and the PPC is functioning.</p> <p>4-g) The procurement regulations and procedures have been approved by the PPC.</p>	<p>4-h) The Minister of Finance has issued to the Parliament a Treasury Memorandum detailing the status of actions to respond the PAC audit recommendations in accordance with national legislation.</p> <p>4-i) The Ministry of Finance has established a system for monitoring the actions taken by public entities in response to audit recommendations.</p>

<p style="text-align: center;">LOGICAL FRAMEWORK FISCAL AND FINANCIAL MANAGEMENT PROGRAM (GY-0053)</p>			
Narrative summary	Indicators	Means of verification	Assumptions
Goal			
To contribute to fiscal sustainability and the development of stable public institutions for the transparent and effective management of public funds, in support of the country's sustained and equitable economic development	<p><u>For at least five years following program completion:</u></p> <p>G1. All provisions guaranteeing the independence of agencies overseeing the proper use of public funds are maintained in effect.</p> <p>G2. Measures taken to improve the equity and effectiveness of the tax system remain in effect, and no contradictory measures are introduced. <u>Baseline:</u> tax revenues, exemptions and tax benefits as of December 2008.</p> <p>G3. Tax collection and control agencies have adequate resources to perform their functions: current and capital expenditures (as a percentage of total tax collection) are maintained at 2.5%.</p> <p>G4. There are no economic crises clearly attributable to fiscal imbalances.</p> <p>G5. The annual non-financial public sector deficit is maintained at sustainable levels consistent with targets agreed with the IMF. The ratio of the present value of public debt to central government revenues remains below 250%.</p>	<p>Independent consultant's report.</p> <p>Independent consultant's report.</p> <p>National Budget.</p> <p>Reports from international agencies.</p> <p>Statistics and debt sustainability analysis performed by national agencies and information contained in IMF reports.</p>	<p>The political commitment to the reforms introduced by the program is maintained.</p> <p>The public sector succeeds in retaining a majority of highly qualified employees.</p> <p>The management performance of public enterprises is not a factor for disruption in the public accounts.</p>
Purposes			
P1. To reverse the deterioration in revenue flows, to improve the equity of the taxation system, and to reduce or eliminate economic distortions generated by tax policy.	<p>P1a. Tax collection rises from 28.3% of GDP in 2003 to 29.6% by the end of the program.</p> <p>P1b. Tax exemptions (as measured by remissions) for imports, as a percentage of the total value of merchandise imports, decline from 14.5% in 2002 to 11% by the end of the program.</p> <p>P1c. The collection of the consumption tax rises from 10.5% of GDP in 2003 to 11.1% of GDP by the end of the program.</p>	<p>Midterm and final program evaluations. Official statistics (GRA and IMF)</p> <p>Midterm and final program evaluations. Official statistics (GRA and IMF).</p> <p>Midterm and final program evaluations. Official statistics (GRA and IMF).</p>	<p>There is broad political support for the reforms. Sufficient human resources are available to implement the reforms.</p> <p>The new control rules and mechanisms generate functional incentives to meet the objectives established in the reform.</p> <p>There is adequate coordination among the major multilateral agencies supporting institutional reform in Guyana (IDB, World Bank, IMF).</p>

LOGICAL FRAMEWORK
FISCAL AND FINANCIAL MANAGEMENT PROGRAM (GY-0053)

Narrative summary	Indicators	Means of verification	Assumptions
<p>P2. To make the budget an effective tool for improving the allocation of public resources, by reducing the potential for the misuse of funds.</p> <p>P3. Public Audit and Parliamentary Oversight become effective instruments for control over the use of public funds.</p>	<p>P1d. By 24 months after beginning of the program, the taxable income threshold is raised from G\$240,000 (US\$1260,1.4 times the country's income per capita) to G\$300,000 (1.8 times per capita income).</p> <p>P2a. The deviation between budgeted and executed total expenditures is reduced from 6.4% in 2002, to an average of 3.2% for the 2004-2008 period (indicator refers to central government expenditure).</p> <p>P2b. The budget is a reliable guide to the planning process for public agencies: the proportion of public officials who expect that the resources they actually receive will fall short of those budgeted declines from 70% in 2000 to 40% in 2008.</p> <p>P2c. Budgetary formulation and execution effectively incorporates public investment, consistent with the new Financial Administration Act (with only one chart of accounts), starting with the 2005 Budget.</p> <p>P2d. The Budget is submitted to the Parliament no later than 30 days before the commencement of each fiscal, starting with the Budget of 2005. Baseline: on average since 1998, the Budget was submitted with a delay of at least 2 months.</p> <p>P3a. The perception of corruption in public entities is reduced: the percentage of public officials who feel that corruption is significant in the public sector declines from 93% in 2000 to 50% in 2008.</p> <p>P3b. By the end of the scheduled program execution the overall acceptance and implementation rates for OAG recommendations increased by at least 20% in relation to the 2001 levels.</p>	<p>Midterm and final program evaluations. Annual Budget.</p> <p>Final program evaluation. Central Government Financial Reports (MOF).</p> <p><u>Baseline.</u> World Bank Report, 2000. Midterm and final program evaluations. Opinion survey among public officials.</p> <p>Report of the specialized public budgeting and investment consultant. CFFA report of 2007</p> <p>Official Gazette. Midterm and final program evaluations. CFAA report of 2007</p> <p><u>Baseline.</u> World Bank Report, 2000. Midterm and final program evaluations. Opinion survey among public officials.</p> <p>Midterm and final program evaluations.</p>	

LOGICAL FRAMEWORK			
FISCAL AND FINANCIAL MANAGEMENT PROGRAM (GY-0053)			
Narrative summary	Indicators	Means of verification	Assumptions
Components			
<p>C1. Improved tax policy and administration</p> <p>C1a. Legal framework consistent with the objectives of an efficient, effective and equitable tax system.</p> <p>C1b. GRA is an autonomous organization, using new information technologies and staffed with trained personnel.</p> <p>C1c. Customs procedures compatible with implementation of the new computerized system.</p>	<p>C1a1. The tax reform legislation is in effect as evidence by issuance of the regulations and collection of new taxes.</p> <p>C1a2. An amendment to the current Customs Act or a new Customs Act based on CARICOM is approved, and its regulations issued by 12 months after program startup.</p> <p>C1b1. Legislation granting the GRA autonomy for the management of its human resources is approved and regulated (by the end of 2003).</p> <p>C1b2. By 12 months after program startup the GRA is working with a new organizational structure, that avoids overlapping between the CED and the IRD.</p> <p>C1c1. GRA is equipped with modern and efficient procedures and information technologies for tax and customs administration as evidenced by:</p> <ul style="list-style-type: none"> a. The adoption of new procedures for Customs administration by the end of 2005. By the end of 2005 100% of foreign trade transactions follow those procedures. b. The adoption of improved procedures for the IRD by the end of 2005. c. The implementation of an expanded and updated taxpayer registry with a single taxpayer identification number (by the end of 2004). d. The implementation and full operation of a new computerized system to support the customs control, and the implementation of a modern tax administration IT system for the IRD (by the end of 2006). 	<p>Official Gazette.</p> <p>Official GRA statistics at the end of 2004, 2005 and 2006.</p> <p>Official Gazette.</p> <p>Midterm program evaluation.</p> <p>Official Gazette.</p> <p>Midterm program evaluation.</p> <p>Midterm and final program evaluations.</p>	

LOGICAL FRAMEWORK FISCAL AND FINANCIAL MANAGEMENT PROGRAM (GY-0053)			
Narrative summary	Indicators	Means of verification	Assumptions
	e. The execution of a comprehensive training program in the areas of customs control and operation. By the end of the program, 100% of the professional and technical staff will be trained.		
C2. Modernized and strengthened financial administration C2a. A legal framework that encourages efficient and effective financial administration. C2b. An expanded and modern, integrated financial management system developed and implemented. C2c. Modern comptrollership functions and streamlining treasury and budgetary processes and procedures, developed and implemented. C2d. A training program in the areas of budgeting, accounting, cash management, internal control and auditing, developed and implemented	C2a1. By end of 2003, the Organic Budget and Financial Management Act is enacted, incorporating the following key aspects: (i) consolidation of current and capital expenditures; (ii) international standards; (iii) system for monitoring actual and budgeted expenditures; (iv) guidelines for public debt management; (v) procedures for prioritizing projects. Regulations of this Act are issued and applied by the end of 2004. C2b1. 12 months after program startup, the integrated financial management system is in operation in the MOF and three pilot ministries. C2c1. 12 months after program startup there is a new manual of operations, processes and procedures, approved and in operation. C2d1. During program execution training is provided for public employees in the budgeting, accounting, cash management, and internal control and audit areas, as specified in the GEMP training plan.	Official Gazette. Program progress reports and midterm evaluation. Program progress reports and midterm evaluation Midterm and final program evaluations.	

<p style="text-align: center;">LOGICAL FRAMEWORK FISCAL AND FINANCIAL MANAGEMENT PROGRAM (GY-0053)</p>			
Narrative summary	Indicators	Means of verification	Assumptions
<p>C3. An efficient system in place for auditing and monitoring public accounts, independent of the executive branch.</p> <p>C3a. A legal framework compatible with the constitutional mandates of the OAG.</p> <p>C3b. OAG restructured in order to fulfill its new mandates.</p> <p>C3c. Parliamentary committees on: (i) Economic Affairs and Public Accounts; and (ii) the Public Procurement Commission, established and strengthened.</p> <p>C3d. Training programs for the Parliamentary committees and their secretariat, as well as a training program in the area of public procurement have been developed and implemented.</p>	<p>C3a1. The new Audit Act is approved and regulated by end March 2004, covering the following key aspects: (i) greater institutional autonomy; (ii) independent budgeting; (iii) direct reporting to the Legislature; (iv) observance of constitutional mandates.</p> <p>C3b1. By 12 months after program startup, designs have been approved for: (i) the new organization chart, with personnel and their assigned functions; (ii) the new procedures manual.</p> <p>C3c1. PPC members are appointed and the Committee starts operating by June 2005.</p> <p>C3c2. The rules, procedures and operating policies underlying the work of the ESC are designed and approved following the PSTAC recommendations. (by the end of 2004).</p> <p>C3d1. During program execution, training is provided to all members of the PAC and ESC, and to 100% of the staff of the secretariat of the committees and Parliament. Training is also provided to 100% of the staff of the Public Procurement Commission.</p>	<p>Official Gazette.</p> <p>Midterm and final program evaluations.</p> <p>Midterm and final program evaluations.</p> <p>Midterm and final program evaluations.</p>	
General activities			
A1. Contracting of individual consultants and consulting firms. Procurement of goods; selection process, establishment of priorities.	Program budget.	Program accounting records.	Suitable consultants and consulting firms respond to program tenders. Local counterpart funds are disbursed in a timely manner.

**INVESTMENT AND TECHNICAL SUPPORT COMPONENT
PROPOSED DETAILED BUDGET (US\$)**

AREA	Total	IDB	Local
Subcomponent 1: GRA	8,610,000	7,800,000	810,000
Advisors (Includes PEU's Technical Advisors)	850,000	850,000	
IT systems for tax and customs administration	2,093,000	2,093,000	
Training	750,000	400,000	350,000
Hardware and Software	2,270,000	2,120,000	150,000
Strengthening IT Unit	450,000	450,000	
Strengthening IRD collection activities	594,500	494,500	100,000
Strengthening of customs activities	211,000	211,000	
Organization and Human Resource Mgmt	321,500	251,500	70,000
Legal	280,000	280,000	0
Refurbishing Infrastructure	470,000	350,000	120,000
Other Equipment	320,000	300,000	20,000
Subcomponent 2: Financial Management	2,123,000	1,900,000	223,000
Debt Management	332,200	157,200	175,000
Macro Fiscal Projections Unit	151,400	123,400	28,000
Organizational structure MOF	357,800	337,800	20,000
Legal	61,600	61,600	0
IFMAS (Expanded use and functionality)	1,220,000	1,220,000	0
Subcomponent 3: PAC/ESC National Assembly	665,000	600,000	65,000
Procedures and Operational Rules	30,000	30,000	
Training	130,000	100,000	30,000
Advisory Services Fund/ Research assistance	190,000	190,000	
IT systems and other equipment	55,000	50,000	5,000
Archives/ Furniture/Publications	40,000	30,000	10,000
Refurbishing of physical facilities	220,000	200,000	20,000
Subcomponent 3: PPC	540,000	500,000	40,000
Technical assistance/advisors	144,000	144,000	
Furniture and Office equipment	50,000	50,000	
Administrative Tools for the Secretariat	56,000	36,000	20,000
Training	120,000	100,000	
Information System (incl. hardware and software)	170,000	170,000	20,000
Other	2,062,000	1,900,000	162,000
Project Management (PCU and PEUs Subcom. 3)	1,050,000	950,000	100,000
Audits and Evaluation	300,000	300,000	
Contingencies	712,000	650,000	62,000
TOTAL	14,000,000	12,700,000	1,300,000

GUYANA: FISCAL AND FINANCIAL MANAGEMENT PROGRAM (GY0053)
PROCUREMENT PLAN

COMPONENTS AND ACTIVITIES	Value in US\$	Financing		Procurement Method	Prequalif.	Estimated Date
		IDB	Local			
1. Subcomponent 1: Tax Policy and Administration						
Technical Advisors (Individual/International)						
Long Term Technical Advisor (36 months)	432,000	100	0	SBP	No	2 sem. 2004
Advisors for Customs (24 person/months)	288,000	100	0	SBP	No	2 sem 2004
IT local advisor (36 person/months)	130,000	100	0	SBP	No	2 sem 2004
IT systems for the GRA						
IT system to support administration of domestic taxes	1,250,000	100	0	ICB	No	1 sem 2005
IT system to support customs administration	843,000	100	0	ICB	No	1 sem 2005
Computer and Communications Infrastructure						
Hardware (core equipment associated to new IT systems)	1,820,000	94	6	ICB	No	2 sem 2005
Hardware (other, not directly related to new IT systems)	250,000	100	20	LCB	No	2 sem 2004/2006
General Software	150,000	100	0	LCB	No	2 sem 2004/2005
Strengthening activities of IRD, CTA and IT Unit						
Individual/ International consultants (48 person/months)	720,000	100	0	SBP	No	2 sem 2004 -2007
Individual/ Local consultants (115 person/months)	460,000	100	0	SBP	No	2 sem 2004 -2008
Organization and Human Resource Mgmt/Communication						
Individual/ International consultants (5 person/months)	75,000	100	0	SBP	No	2 sem 2004-2006
Individual/ Local consultants (14 person/months)	56,000	100	0	SBP	No	2 sem 2004 -2008
3 Workshops/seminars	45,000	100	0	LRFP	No	2005-2006
Training						
International Consultants/Trainers 24 person/months	384,000	50	50	SBP	No	2 sem 2004 -2008
Local Consultants/Trainers 40 person/months	160,000	50	50	SBP	No	2 sem 2004 -2008
Computers and other learning equipment	50,000	70	30	LCB	No	1 sem 2005
Training overseas	150,000	60	40		No	2 sem 2004 -2008
Refurbishing						
Customs facilities in 9 locations	180,000	90	10	LCB	No	1/2 sem 2005
Other remodeling (IIT Unit facilities,wiring, air conditioning)	200,000	80	20	LCB	No	2 sem 2005
Remodeling Training Facilities	70,000	0	100	LCB	No	1 sem 2005
2. Subcomponent 2: Financial Management						
Ministry of Finance/Debt Mgmt/Fiscal Projection Unit						
Consulting						
Individual International Consultants 12 person/months	180,000	100	0	SBP	No	2 sem 2004 -2008
Individual Local Consultants 16 person/months	64,000	100	0	SBP	No	2 sem 2004 -2008
Equipment						
Hardware	130,000	72	28	LCB	No	2005/2006
Other equipment and furniture	87,000	71	29	LCB/PS	No	2005/2006
Software	40,000	100	0	LCB	No	2005/2006
Training						
International Consultants/Trainers 3 person/months	45,000	67	33	SBP	No	2005/2006
Local Consultants/Trainers 6 person/months	24,000	75	25	SBP	No	2005/2007
Overseas Training	120,000	42	58		No	2005/2008
4 Workshops	60,000	100	0	LRFP	No	2005/2006
Refurbishing of office space	200,000	90	10	LCB	No	2005
IFMAS						
Consulting						
Individual International Consultants 15 person/months	225,000	100	0	SBP	No	2 sem 2004 -2005
Individual Local Consultants 36 person/months	144,000	100	0	SBP	No	2 sem 2004 -2008
Equipment						
Computer Hardware	200,000	100	0	LCB	No	1 sem 2005/2006
Software (IFMAS extended functionality)	375,000	100	0	DC	No	2005
Software (IFMAS-Power Play on Line-reporting)	125,000	100	0	DC	No	2005
Training						
International Consultants/Trainers 4 person/months	60,000	100	0	SBP	No	2005
Local Consultants/Trainers 15 person/months	60,000	100	0	SBP	No	2005/2006
Refurbishing training facilities	75,000	100	0	LCB	No	1 sem 2005
3. Subcomponent3: Fiduciary Oversight						
PAC/ESC National Assembly						
Consulting						
Individual International Consultants 5 person/months	75,000	100	0	SBP	No	2 sem 2004 - 2007
Individual Local Consultants 15 person/months	60,000	100	0	SBP	No	2 sem 2004 - 2007
Training						
Consultants/trainers	70,000	71	29	SBP	No	2 sem 2004 - 2007
Workshops	30,000	100	0	LRFP	No	1 sem 2005 - 2007
Overseas training	60,000	83	17		No	1 sem 2005 - 2007
Computer hardware and software	30,000	100	0	LCB	No	2005
Other equipment (photocopier, fax equipment, archives)	40,000	75	25	PS	No	2005
Refurbishing of physical facilities	220,000	91	9	LCB	No	1 sem 2005/ 2006
Public Procurement Commission PPC						
Consulting						
Individual International Consultants 12 person/months	144,000	100	0	SBP	No	1 sem 2005 - 2007
Individual Local Consultants 12 person/months	48,000	58	42	SBP	No	1 sem 2005 - 2007
Furniture and Office equipment	50,000	100	0	PS	No	2005
Training	120,000	83	17	SBP	No	1 sem 2005 - 2007
Information System for the PPC						
Computer Hardware	55,000	100	0	LCB	No	1 sem 2005- 2007
General Software	15,000	100	0	PS	No	1 sem 2005- 2007
Procurement Information System (software)	100,000	100	0	LCB	No	1 sem 2006

SBP: Standard Bank's Policy for contracting Individual Consultants
LRFP: Local Request for proposal from consulting firms under US\$200,000
LCB: Local competitive bidding under US\$250,000
ICB: International competitive bidding over US\$250,000
PS: Price shopping

IN REPLYING QUOTE DATE
HEREOF AND No.....



MINISTRY OF FINANCE
49 Main & Urquhart Streets,
Georgetown,
Guyana.

LETTER OF DEVELOPMENT POLICY

Georgetown,
April 27, 2004

Mr. Enrique V. Iglesias
President
The Inter-American Development Bank

Dear Mr. Iglesias:

1. Since 1988, Guyana has implemented far-reaching policy and structural reforms and made strong efforts aimed at improving the delivery of social services, with substantial external support. As a result, output and per capita consumption increased sharply during 1991-97; also, according to household survey data, the share of the population living in poverty and extreme poverty dropped substantially between 1993 and 1999. Since 1998, however, output growth has slowed. This change in trend reflects adverse exogenous factors, including a decline in commodity prices, unfavourable weather conditions, as well as a difficult domestic political and labour relations environment that delayed the implementation of structural reforms and undermined investor confidence. The challenge facing Guyana over the medium term is to restore economic growth and set the economy on a higher, sustainable growth path that would substantially expand employment opportunities, reduce poverty, and improve living standards in the context of low inflation.

2. In its Poverty Reduction Strategy Paper (PRSP), Guyana sets out a homegrown approach to meeting this challenge. The PRSP builds on existing strategies, including the overarching National Development Strategy (NDS), and on an extensive consultation process, which involved discussions at the local, regional and national levels over a five-month period in mid-2001. The Poverty Reduction Strategy (PRS) aims to make further substantial progress in reducing poverty in line with the Millennium Development Goals for the year 2015. To do so, it rests on the following pillars: (1) broad-based, job generating economic growth; (2) environmental protection; (3) stronger institutions and better governance; (4) investment in human capital, mainly through basic education and primary health; (5) the expansion of economic infrastructure; (6) improved safety nets; and (7) special intervention programs to address those adversely affected by structural reforms and regional pockets of poverty.

3. The Government of Guyana wishes to request funding of US\$28 million from the Inter-American Development Bank for a Fiscal and Financial Management Program which would support initiatives relating to the first and third of strategic pillars contained in the PRSP. Specifically, the program would support a series of reforms aimed at ensuring fiscal sustainability (thus underpinning the basis for future economic growth) and at improving the transparency and accountability of financial management (hence contributing to overall improvements in the country's governance).

4. In support of this financing request, this letter describes:

- a. The government's macroeconomic policy framework, as supported by the ongoing Poverty Reduction and Growth Facility agreement with International Monetary Fund.
- b. The objectives of the fiscal and financial management reforms proposed under the program.

I. Macroeconomic Framework

5. In response to the growing economic difficulties outlined above, in September 2002 a three-year reform program supported by a PRGF arrangement with the IMF was put in place. The programme builds on the adjustment and reform momentum exhibited in recent years, and is designed to promote macroeconomic stability and long-run sustainable growth and poverty reduction.

6. *Fiscal policy* under the programme envisages revenue-enhancing and controlling measures (including tax reform and wage restraint) to improve public-sector savings and place public debt ratios on a downward trajectory. Moreover, higher savings are programmed to help finance an increase in poverty-reducing spending and restructure the sugar and bauxite sectors. *Monetary policy* will aim to keep inflation low in the context of the floating exchange rate regime. The program also incorporates *structural reforms* that are critical for sustainable growth and poverty reduction. These include comprehensive sugar-sector restructuring with World Bank technical assistance; privatization of the largest loss-making public bauxite company and a strategy for restructuring the sector in the medium term; reform of the procurement system, and tax and expenditure management reforms to improve discipline, transparency and accountability in fiscal governance.

7. The first review under the PRGF arrangement was completed in September 2003. The review observed that the government had enacted legislation to extend the consumption tax, introduce a presumptive income tax, limited income tax holidays, increase the withholding taxes, and increase the personal income tax threshold; and amended the various acts to limit the government's power to grant tax exemptions. Notwithstanding a much weaker than expected economy, many of the 2002 programme's quantitative targets were met. In particular, the non-financial public sector deficit (after grants) was held to 5.8% of GDP (against a programmed level of 7.6%) as higher than programmed tax collections and lower capital outlays more than offset a weak performance in the public enterprises. Nonetheless, output contracted by -0.2% in

2002. Private investment and consumption was hit by a wave of violent crime, while the slowdown was exacerbated by a credit crunch and lower public investment. Weak output helped to keep inflation low at about 6%.

8. Structural reforms supported under the program were slow to take off, leading to a delay in completion of the first review from the planned date in December 2002. However, an acceleration of the reform process in subsequent months, including approval of new procurement, tax and financial management bills, as well as the signing of a new restructuring plan for the state sugar company (GUYSUCO), facilitated completion of the first review in September. Completion of the second review under the PRGF is now expected in June 2004, pending completion of a PRSP progress report.

II. Fiscal and Financial Management Reform

9. The measures contemplated under the government's program of fiscal and financial reform are aimed both at ensuring fiscal sustainability and at improving the transparency and accountability of financial management.

10. With respect to the first objective, the government regards continued macroeconomic stability as critical for a framework that promotes growth. Since 1995, however, the revenue yield has stagnated as a percentage of GDP, owing to a tax system characterized by high rates, a narrow base and weak administration. Against this backdrop and cognizant of its current and prospective regional trade arrangements, in 2002 the government completed a tax study with the objective of broadening the tax base, reducing the incidence of distortionary taxes and increasing revenue collection. The government began implementing the resulting tax reform action plan in 2003, when a Fiscal Enactment Bill was approved which extended the consumption tax to all services provided by hotels and by professionals; introduced a presumptive income tax on the self-employed; raised the annual license fees on professional businesses; and limited the government's discretionary power to grant tax exemptions and income tax holidays. Drafting of the regulations for the new tax bill is underway and will be completed by December 2004.

11. With a view to ensuring the efficient implementation of these legislative reforms, the government is committed to implementing a comprehensive institutional modernization plan for the Guyana Revenue Authority (GRA). The foundations for this plan were laid on October 23rd, 2003, when the National Assembly approved an amendment to the Guyana Revenue Authority Act granting the GRA full autonomy in the management of its human resources. The planned investment programme to modernize the GRA will build on this by promoting the adoption of a new organizational structure in order to eliminate overlaps between the customs and internal revenue departments; enhancements to the IT infrastructure and the implementation of modern information systems; putting in place of a legislative framework consistent with the modernization of customs operations; the adoption of new and more effective procedures for customs and the Internal Revenue Department (IRD); the introduction of a self-assessment system for taxes and the strengthening of the tax audit system; and finally, analytical work to support definition of the framework for introduction of a value-added tax (VAT) in 2006. This challenging programme will require the financial and technical support of the IDB.

12. With respect to the second objective of enhancing the transparency and accountability of financial management, the government is keenly aware of the need to improve the efficiency with which it uses taxpayers' money. As a result, the authorities are pursuing reforms to both the procurement and expenditure management systems of the central government. In addition, they are committed to supporting the strengthening of constitutional oversight mechanisms for public financial management.

13. In the area of procurement, in July 2003 the government enacted a new Procurement Act aimed at strengthening the legal and institutional framework for government procurement and improving transparency in the awarding of government contracts. The National Procurement and Tender Administration (NPTA) Secretariat was established in August 2003, and the appointment of NATA Board Members is expected by December 2004. The preparation of the regulations and standard bidding documents needed to support the new legislative framework is also expected to get underway by June 2004, with the support of the World Bank.

14. In addition, the government is implementing reforms to control expenditures and improve the efficiency of resource utilization through modernization of public sector financial management systems and the introduction of programme budgeting. CIDA has been supporting government in this endeavour through the Guyana Economic Management Programme, which is helping to implement a modern integrated financial and accounting system (IFMAS). These efforts have required the modernisation of the regulatory framework for financial management, leading to the enactment on December 15th, 2003 of a new Financial Management and Accountability Act.

15. The authorities now aim to build upon this work with CIDA by extending the IFMAS to the entire central government; further strengthening the Accountant General's Office; fully implementing the system of program budgeting, and by designing and implementing a comprehensive training programme for technical staff in the Ministry of Finance. Further financial support will be needed for these reforms, which will not only help to improve the transparency of fiscal management, but will also allow the authorities to better identify areas in to more effectively allocate resources and control expenditures, thus supporting fiscal sustainability.

16. The final area of emphasis within the government's reform programme concerns fiscal and fiduciary oversight. Support is needed for the implementation of those oversight mechanisms provided for under a series of constitutional amendments approved by parliament in 2001, including a newly independent Auditor General, a new parliamentary Economic Services Committee and a new independent Public Procurement Commission. Implementation of these reforms has been delayed since 2001 by the faltering dialogue between the government and the opposition party. At the same time, strengthening of the existing Public Accounts Committee of parliament is required.

17. The Office of the Auditor General (OAG) is responsible for auditing the accounts of central and local government agencies, other entities in which the State has a controlling interest, and trade unions. The 2001 constitutional reforms provided for an independent OAG, through provisions for greater institutional autonomy and oversight by the Public Accounts

Committee of parliament instead of the Ministry of Finance. In order to operationalise these reforms, however, a new Audit Act was required. Drafting of the Act was carried out with IDB consultant assistance in early 2002, and *the legislation was subsequently approved by the Parliament in April. A new Policies and Procedures Manual for the OAG is currently being considered by the Public Accounts Committee.* The challenge is now to strengthen the OAG's capacity to carry out its oversight functions. The Auditor General's efforts in support of this will be aided by an IDB technical cooperation (ATN/SF-8184-GY), which provides for improvements to organizational and human resource management, professional practices and standards and the IT platform.

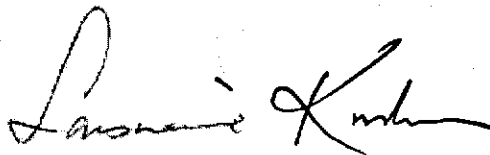
18. The Public Accounts Committee (PAC) is responsible for ex-post review of the public accounts, oversight of the OAG and making recommendations for action by the Ministry of Finance based upon the findings of the Auditor General. Although the PAC is one of the longest-standing committees of parliament, it faces significant constraints in effectively carrying out its functions, in particular a scarcity of resources. The Economic Services Committee (ESC), on the other hand, is one of seven new parliamentary standing committees provided for under the 2001 constitutional amendments. Its members were appointed in October, 2003, and they now face the challenge of determining the committee's scope of activities (which the Constitution leaves undefined), as well as rules and procedures for its operation. With respect to the ESC, *definition of the committee's role is expected as a result of an ongoing World Bank fiduciary oversight study, the results of which are expected by September 2004.* Both the ESC and the PAC, however, will perform an oversight role in the process of public financial management in Guyana, and training and logistical support will be needed in order to fully enable their members to perform these functions. The government is committed to providing the PAC and the ESC with the necessary training and resources to ensure that they are able to play a full role in overseeing the fiscal and financial management of the executive branch.

19. The final body of importance in Guyana's fiduciary oversight framework is the Public Procurement Commission (PPC). The 2001 constitutional amendments provided for the creation of an independent PPC responsible for the approval of the country's procurement regulations and procedures; the recommendation of modifications to procurement regulations and procedures to relevant agencies; the monitoring and review of the functioning of all public procurement systems, and the investigation of procurement-related complaints from the public. Unfortunately, appointment of PPC members by parliament has been delayed owing to disagreements between the governing and opposition parties. The authorities expect that the PPC members will be appointed by mid 2005. Thereafter, the authorities, through the financial support provided by the IDB, will provide sufficient resources to enable the PPC to effectively perform its oversight functions.

V. Conclusion

20. The government has put forward an ambitious programme for the reform of fiscal and financial management in Guyana. The policies and institutional reforms to be implemented will strengthen the prospects for fiscal sustainability and enhance the transparency of financial management, and the authorities are fully committed to their implementation over the coming four-year period. Accordingly, the government hopes that our request for a new IDB-financed Fiscal and Financial Management Program as set out in the project document will be approved, and we look forward to collaborating with the Bank in carrying out the program to a successful conclusion.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Saisnarine Kowlessar', with a stylized flourish at the end.

Saisnarine Kowlessar

Minister of Finance